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Ideas on Liberty

JANUARY 1980

SCARCITY

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION
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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average $18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of $5.00 a year.

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Additional copies, postpaid: 3 for $1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

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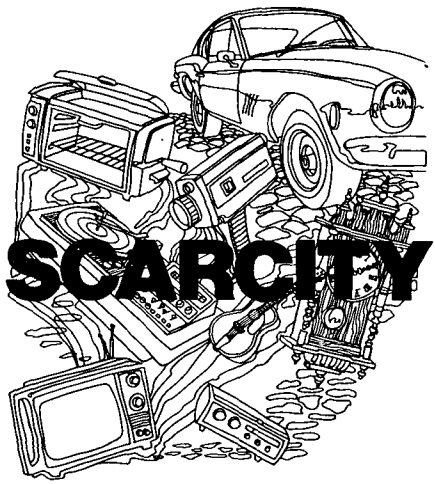
Russell Shannon



OUR economics professor enters the classroom. Walking over to the lectern, he opens his notes, smiles at the students and utters a single word: "Scarcity."

No, it is not the name of a disco hit sung by the Bee Gees. No, it is not engraved on his childhood sled. No, it is not the secret word, so a duck will not descend and deliver one hundred dollars—as it used to do on Groucho Marx's TV program, "You Bet Your Life." Our professor simply calls attention to the core of his course.

Scarcity confronts people from Maine to Miami, from Connecticut to California. In fact, Canadians, Cubans, Colombians, Czechoslovakians, Cambodians, and Chinese all share the same fate. Such different peoples may choose to deal with scarcity in different ways. But scarcity is a pervasive, universal problem that no one can duck. Just like air, scarcity is everywhere.

What is scarcity all about? "I'm glad you asked," our professor replies, "because I plan to tell you anyway." As he points out, scarcity comprises two integral and conflicting aspects—unlimited human wants and limited resources. "From those facts," he says, "we must conclude that happiness is elusive. We cannot satisfy all our desires. We all are always forced to choose. That's why we call economics 'dismal.'"

What should we choose? How

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should we go about making choices? First we must understand the underlying essence of scarcity. Then the answers to those questions simply leap out at us.

Consider your own wants. What would appear on a list of all the things you'd really like to have? Probably food, clothes, books, travel; perhaps football, flowers, furniture, friends. But the list will go on and on, and if tomorrow or on another day you're told to make a list again, it very likely will be longer still.

Remember when you were a child—20, 30, 40 or more years ago—and someone asked about your Christmas wish? Probably you sought a doll or a watch, perhaps a new suit, a train, or a bike. Yet for many modern children, no single sleigh can convey all they say they seek. Now, only a plethora will please!

Recall reacting to your first big paycheck? Your income had suddenly risen—from a measly weekly allowance to several thousand dollars a year. You may have wondered, How will I ever spend it all? Yet by now—oh, how you wish you could earn more! George Stigler once wrote in reference to Thomas Malthus that "he did not deny categorically the insatiability of human wants, nor has any married economist since his time . . . "

Our list of wants is unlimited indeed—and always expanding. But there's more to such lists than length. There's also variety. Each individual's wants are different.

Suppose you ask each member of a group for a list of wants. Compare their lists when they're done. There may be many common items —hamburgers, shirts, movie tickets, books. But each person's list will be unique. Some will want mayonnaise, button-downs, "Alien," and *Overload*. Others prefer ketchup, tee-shirts, "Hair," and *Zen and the Art of Motorcycle Maintenance*. Certain items may appear but once. Just like fingerprints and snowflakes, no two lists of human wants are ever apt to be alike.

Roger J. Williams on Individual Variations

The basis of this incredible diversity of wants was explored not long ago by Roger J. Williams, a chemist at the University of Texas. His article is reprinted in a book called *Essays on Individuality*; edited by Felix Morley, it was recently republished by the Liberty Press of Indianapolis.

Williams notes, for example, that in normal people the length of the small intestine may vary from 11 feet to almost 30 feet. Thyroid glands range from 9 to 50 grams in weight. Our bones and even our digestive juices are enormously varied. An orange may not always be sweet, and there is no such thing,

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Williams maintains, as an "average" anatomy.

Shakespeare said it in *Hamlet*: "What a piece of work is a man! . . . how infinite in faculty!" He knew, too, that our human and material wants are both infinite and infinitely varied. We can admire the bard for both his rhymes and his ability to reason.

But our economics professor makes us pause. "In the face of all these diverse wants," he says again, "we are confronted with a sad, stark fact. We simply cannot do or have everything. Our workers, our land, our factories, and our equipment are insufficient. Our transportation and communication systems now span the globe, but still they are inadequate. Our days are too short and too few. Andrew Marvell laments, 'Had we but world enough, and time!' But we have not. So we must choose."

But *who* should choose? What is the most efficient way of deciding what is best? Should we let our choices be made primarily on an individual basis, in the "market," as we are inclined to do here? Or should we have instead a centralized coordinating committee of some sort to make our crucial choices?

Surely a committee could not comprehend the vast variety of human wants. It would inevitably ignore individual idiosyncrasies. Would it be better if we all ate and dressed alike and if all our homes looked just the same? What if all our clothes were brown, if houses all were brick, and if the only vegetable allowed were broccoli?

Some people might like it that way, but they ignore certain crucial matters. For one, in those countries where centralized choice prevails—such as Russia and China—the general standards of living are much lower than ours. Opportunities are fewer. Environmental problems arise. Life is more apt to be drab.

The Results of Choice

Why does permitting more scope for individual choice produce better results? Reconsider our resources. Although they truly are limited, they too are varied. More importantly, like our wants they can expand!

Roger Williams also notes the range of human options. Muscular differences such as those in the thumb, he says, permit, promote, or prevent a wide range of activity from brain surgery to watch making to pocket picking. Someone with excellent potential for developing a great voice may end up singing grand opera—or yodeling! Talk about resource variety!

But also notice resource expansion. For one example, our farmers have become so productive that now one farmer in America feeds about 60 people. Only 4 per cent of our

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population directly works at raising crops. It surely hasn't always been that way. In fact, in most parts of the world, it isn't that way even now. In many places, a majority of people work at farming, because one farmer feeds far fewer people. In some places, the Malthusian specter of starvation still stalks the land.

The Expansion of Resources

Wilfred Beckerman, an Oxford economist, offers a similarly dramatic example of resource expansion in his book, *Two Cheers for the Affluent Society*. Once upon a time, Beckerman says, aluminum articles were produced only for the very rich. Now we use aluminum to make common wrappers and throw-away articles. Aluminum has gone from treasure to trash.

"Or," says our own economics professor, "take natural gas. In 1955 our gas reserves were reported to be 22.5 trillion cubic feet. In the same year, we used up 9 trillion cubic feet. Simple arithmetic tells us that, at that rate, there won't be any left at all to heat our homes this winter. And yet, despite that frigid forecast, in 1976 we used 20 trillion cubic feet, and our remaining supplies were 216 trillion cubic feet. Where on earth did we get all that gas?"

Of course, no dinosaurs have died recently. The gas has been there all along. But gas as an economic resource is not only a physical but also a mental matter. It is a function of man's mind. For example, we discover unknown supplies underground—such as in Alaska. We also develop new methods of extraction —such as by forcing steam into the ground. And we devise better methods of resource utilization—such as the new automobile engines which greatly improve gasoline mileage. "Knowledge," Erich Zimmerman once wrote, "is truly the mother of all other resources." It is in the fertile womb of his mind that man creates resources.

"Perhaps this may seem to be a bit out of line for an economist," our professor says, "but let me remind you of the first great act of Creation. It is reported to us in Genesis, and you surely recall the ultimate achievement of that act—the creation of man himself.

"What is the nature of man? We are given a clue by the writer of Genesis, who tells us God created man 'in his own image.' Of course, we are surely not the same as God; we have merely a 'likeness.' Man cannot create a whole universe. But just as God spun one with his great power and inordinate abilities, so too with this 'likeness' man can create and expand his resources. When he does, he can better satisfy his diverse and growing wants."

Jacob Bronowski approaches the same matter from a different but equally striking perspective in *The*

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Ascent of Man. Like nature herself, Bronowski says, "Man has become an architect of his environment . . . His method has been selective and probing: an intellectual approach in which action depends on understanding." The wonder and magnificence of man's creative abilities can thus emerge from the views of theology and science as well as economics.

The Market Mechanism

What, then, is the social mechanism most conducive to the development of man's abilities and resources? Certainly an open and free market has much to recommend it. After all, no government guidance was needed when timber ran out in the late Middle Ages and man switched to coal for power. Similarly, when we pursued the prospects of petroleum a century ago as whale oil became increasingly scarce, no representative of a Department of Energy hovered over Edwin Drake at Titusville.

"Far too much of what our government does," the economics professor says, "is simply restrictive. Too often governmental policies discourage competition, hamper change, fix prices, limit imports, require licenses, stipulate procedures, and reduce options. The minds and motives of men are too often cramped, encumbered, and confined. Look at what has happened as a result: our rate of economic growth is now so slow we envy the snail."

We should remember, our economist might well add, that man can not only create; he can also deploy. Given the resource capabilities man now has, he must decide how best to utilize them. But no single man can perceive all the available options. Though admirably well-intentioned, in his limited individual knowledge, he's bound at times to err.

Our former Energy Secretary, James Schlesinger, clearly demonstrates that fact. By all accounts the man is well-educated, highly informed, and hard-working. Yet, while Energy Secretary, he prevented oil companies from buying oil on the spot market. Then he required them to devote more refinery capacity to assuring adequate fuel supplies for the winter several months away.

Left alone, what would the giant petroleum companies have done? For them, the secret word is profit. For us, the tragedy is that they have not been allowed to pursue it. For some of these giants, there would have been ample incentive to provide more winter fuel. But others might have seen better prospect for profit in producing motor fuel. With the decision makers both numerous and dispersed, last summer's gas pains would surely have been less severe.

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The problems inherent in government guidance emerge even more starkly in the government efforts to distribute diesel fuel. At first, farmers were given priority. That seems to be a sensible decision, since food is essential for all, regardless of race, creed, sex, or financial status. Without adequate fuel for farmers, what would we eat?

Yet, Meg Cox reported in the *Wall Street Journal* for May 25, 1979, a remarkable but largely unremarked development in farming. Some farmers now simply skip plowing and plant "right on top of the previous year's crop." There are some difficulties involved in this technique, but those farmers who can manage it require only about one gallon of fuel per acre—instead of the 5 to 7 gallons needed for ordinary tillage. That's a fuel saving of at least 80 per cent!

Quite obviously, then, the demand for fuel by at least some farmers *can* respond to rising prices and limited availability. Given such an incentive, some farmers surely would have gotten by with less. What then? More diesel fuel would have been available for truckers. Its price would not have been so high. The truckers' strike might not have occurred. We might have been spared the terror of snipers aiming at our highways. And the food that farmers grew might not have been left to decay in the fields. We paid a high price, indeed, for permitting economic decisions to become more centralized.

Competing to Serve

Allowing for free and open competition seems to be both a surer and a safer way to satisfy the diverse wants of man. In fact, many of our farmers' crops were saved—because the railroads came to their rescue. In the nick of time, removal of regulations by the Interstate Commerce Commission allowed trains to transport produce across the land on the "Salad Bowl Express." Here is a striking testimony to the marvels of the free market.

Man's capacity to consume may be infinite. Given time, his capabilities to produce may be similarly boundless. But the knowledge of one man has limits. It was the presumption that he knew everything—eating the fruit of the tree of knowledge—that deprived man of the bounty of Eden. Even now, our arrogant belief that all knowledge and wisdom can reside in a single individual—or in a handful of government officials—is denying us the bounty we might well create.

"What should we do?" our economics professor asks. "First of all, let's recognize the enormous range and diversity of our individual wants. Then recall the tremendous innovative achievements of the people in our past—our Franklins, our Edi-

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sons, our Wright brothers, our Bordens, our Swifts, our Sears, our Woolworths, and our Walgreens. Then restore and renew the system that evoked their efforts so that once again we might emulate their achievements.

"If we are determined to approach the energy crisis and the other problems of scarcity in the most creative and constructive way, then we will cut back the constraints imposed by government. We will grant people the power to pursue their own preferences. We will allow an open system of free markets. If we will only do that, then scarcity will be less oppressive, our horizons will expand with a multitude of new opportunities, and our future will be much brighter."

And saying that, our professor again smiles warmly at the class, picks up his scattered notes, and walks slowly out through the open door.

Jayne B. Ball

WHY NO BEEF LINES?

OVERALL supplies of gasoline have been about 5%-7% below year-ago levels on a monthly basis. Beef supplies on the other hand, have been running approximately 15% below a year ago. So why are there no beef lines?

Jayne Ball is vice president and director of research at the New York Mercantile Exchange where petroleum product futures are traded.

This article is reprinted by permission from the September 1979 issue of *Commodities* magazine, Cedar Falls, Iowa.

The answer is simple:

1. Beef prices are not controlled by the government and were able to rise to a level which effectively reduced demand for beef to balance with the smaller supply.

2. The government does not allocate supplies of beef so members of the trade in the many states and localities individually were able to secure supplies by raising their bids when necessary to draw beef to even

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the most inaccessible corner of America.

Higher prices contributed to reduce beef consumption. Some people could not afford beef cuts, while others judged that eating beef was not worth the extra cost relative to alternative meats and poultry. But for those willing to pay the price, beef was and is available. In fact, the only times that beef is difficult to obtain is when supermarkets feature it as a sale item, drawing customers to pick up bargains.

There is a joke about a woman complaining to a grocer that he charges 10 cents more for his bananas than a competitor down the street.

"So why don't you buy your bananas there?" asks the grocer.

"He doesn't have any," answers the woman.

To which the grocer replies, "When I don't have any, I'll sell them for 10 cents less than he will."

The point of this rather unfunny story is that a low price is meaningless if you can't get the goods.

Of course, beef is only one kind of meat and some will argue that alternatives to petroleum are neither so varied nor so quickly generated as extra broilers or hogs. But that is just a time factor and not a contradiction to the law of supply and demand.

It's a very elementary fact that low prices stimulate consumption and high prices encourage conservation. This is true for every commodity, both essential and luxury items.

Very few Americans are in the envious position of not having to ask the price of goods or services before making a purchase. Most of us have to budget our money to obtain necessities of life and to, hopefully, have something left for luxuries. As a result of higher gas prices, lower income families may not be able to buy as much, but those that must have gas will budget their resources to get it. If prices rise to a point that makes it difficult for the shopper to justify an extra trip to the supermarket to buy one or two items forgotten, the trip won't be made.

Carpooling will increase substantially for business, shopping and pleasure. Use of mass transportation, where available, will also be greater. In short, conservation would be promoted without coercive government measures, such as odd/even gas sales, rationing or other equally ineffective actions.

No Instant Solutions

Decontrol of oil prices and the abolition of the government allocation system will obviously not bring an overnight increase in available supplies of petroleum. There is considerable lead time necessary to find and develop new sources of energy.

The near-term benefits of allow-

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ing prices to rise to levels which reflect the balance of supply and demand are the end of gas lines, the voluntary cutbacks in consumption for non-essential purposes and the assurance that gasoline will be available for those who must have it, albeit at a higher price.

Long-term, decontrol will enhance investment in energy. Downside risks in this industry are great and limits on prices or profits can only discourage the inflow of capital into this vital area.

The answer to our energy problems may not be oil. The profit motive has been responsible for discovery of many new sources and the better application of known resources. Some presently known sources of energy could become economically feasible in a free market, and competition would likely result in improved and cheaper means of refining.

Higher prices for beef increased cattle ranchers' profits. As a result, ranchers are once again building herds, and the outlook for supplies for 1980 is improving.

Likewise, the potential for profit can draw capital into the quest to produce more energy in America. But whether the source is oil or some alternative, the answer to our energy problem does not lie in increased government involvement nor in confiscatory taxation of oil companies.

Just as the market adjusts to changing supplies of beef—higher prices in times of scarcity and lower prices in periods of heavier production—so, too, can the free market assure the orderly distribution of energy supplies.

IDEAS ON LIBERTY

Efficient and Voluntary

THE price system has two outstanding features. First, it is by all odds the most efficient system of social organization ever conceived. It makes it possible for huge multitudes to cooperate effectively, multitudes who may hardly know of each other's existence, or whose personal attitudes toward one another may be indifference or hostility. Second, it affords a maximum of individual freedom and a minimum of coercion. And since people can cooperate effectively in production even when their attitudes on other issues are hostile, there is no need for unity and conformity in religion, politics, recreation, and language—or even in patriotism and good will except in the very broadest sense.

W. ALLEN WALLIS, "The Price System"

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Clarence B. Carson

The Origins of American Unions

It is widely believed that labor unions are organized to counter the weight of and contest with employers. In the common parlance, the contestants are unions and management or, according to the older ideological formulation, "labor and capital." Most textbooks which deal with the subject simply assume that this is the nature of the contest and do not regard it as a question worthy of exploration. For example, one history text accounts for the rise of labor unions this way:

> Individual workers were powerless to battle singlehandedly against giant industry. Forced to organize and fight for basic rights, they found the dice heavily loaded against them. The corporation could dispense with the individual worker much more easily than the worker could dispense with the corporation. The employer could pool vast wealth through thousands of stockholders. . . . He could import strikebreakers ("scabs") and employ thugs to beat up labor organizers. . . .[1]

Another history textbook puts it this way: "As the factory became the only important producing unit, the individuals connected with it were demeaned. An employee could no longer hope to have his grievances heard, for he could not compete with the power of capital and management."[2] That this is the nature of the conflict is simply affirmed by this statement in yet another history book: "Repeated efforts by trade union lawyers to persuade judges that trade societies had a legal right to carry on collective action against

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Dr. Carson has written and taught extensively, specializing in American intellectual history. His recent series in *The Freeman, World in the Grip of an Idea,* is being published by Arlington House. It is scheduled for release by early January 1980, and also may be ordered from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533 at $14.95.

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employers were finally rewarded in 1842. . . ."[3] Another says, "Organized labor passed through phases of bewildering complexity before it won the power to meet organized capital on equal terms."[4] In short, so far as the present writer's investigation goes, there seems to be near unanimity in the view that labor unions exist for and engage in contests with management or capital.

Undoubtedly, some portion of the contest or conflict is between unions and management. They are the formally designated contenders. The rhetoric of union leaders is frequently filled with charges against management, and employers have often been at the forefront in contending with unions. If an agreement is reached, it is usually between unions and management. (Unions have often contended with one another also, but agreements do not so commonly arise from these.) Moreover, there is at least one economic basis for the contest to be between unions and management. In their pursuit of self-interest, employers will ordinarily seek to employ the most effective workers for the lowest price (or wage) they can attain. And, on the other hand, workers may be expected to seek the highest price possible for the least amount of their work.

There seems to be near unanimity in the view that labor unions exist for and engage in contests with management or capital.

Cooperation with Employers

Even so, the basic conflict of labor unions is not with management (or employers or capital, or whatever it should be called). Belief to the contrary is based on appearances buttressed by propaganda drawn from ideology, a point to be taken up elsewhere. Furthermore, permanent labor union organizations could not have arisen from or been sustained by contentions between employers and employees. The underlying reason for this is that the employers and employees are not competitors. Their basic relationship to one another is one of mutual benefit and cooperation. The employer provides the job, and the employee does the work. To accomplish their common purpose, they must work together, so to speak. An enduring contention which could sustain an organization is practically out of the question.

Of course, employers and employees do sometimes contend. Employees have grievances, and employers have dissatisfactions. On rare occasions, employee grievances may be so general that they will walk out. There have been a goodly number of instances of this throughout American history, usually provoked by the

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attempt of the employer to lower wages. But this is not the stuff of permanent labor union organization. (Indeed, nowadays such a walkout, if it were to occur among unionized employees, would be called a "wildcat strike," i. e., an improper and unsanctioned union activity.) Such a walkout could only fail in its object or succeed; in either case, the occasion for collective action would be past, and no permanent organization would be called for. Grievances are usually limited in scope and rarely arouse collective action. True, labor unions may establish procedures for dealing with grievances, but that is an auxiliary service, not the basis of their permanence.

Excluding the Competition

What, then, is the basis of the permanent labor union organization? It is this, that the union can and will obtain for its members a larger return for their efforts, when employed, than they could obtain on the open market. There is but one way this could be accomplished on anything like a permanent basis: *By reducing the supply of labor available in a craft, profession, or industry*. There are many artifices, of course, by which this can be done.

This should tell us, too, who labor is organized against, who the basic and underlying contest is with. And it does. Organized labor unions are organized *to exclude from a craft, profession, or industry all competing workmen* who are unorganized or not under the discipline of that particular union. The enduring contest on which permanent labor unions subsist is not unions versus management but union worker versus non-union workers or those who are competitors belonging to a different union.

The union contest with management is sporadic, temporary, and, even when it is in progress, usually secondary. The enduring contest is with workers not members of the dominant or struggling union. Such union contest with management as there is has as its primary aim the formation of an alliance. The purpose of the alliance is to align management with the union in its reduction of the supply of labor available to employers. The seal of the alliance is the agreement or pact between union and management, or, since management or "capital" is inessential to labor unions, a pact binding those who perform the labor for whatever employer constitutes the seal.

Reexamining the Premises

Each of these propositions runs contrary to what is widely believed about labor unions. Since they do, it may be helpful to restate them serially. When that has been done, we can proceed to the reason and evi-

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dence on which they are based. These are the propositions:

1. The premise of the labor union is that it can and will obtain a larger return for its members than they would receive in the open market.

2. The means of accomplishing this on anything like a permanent basis is by reducing the supply of labor available in a craft, profession, or industry.

3. The union acts to reduce the supply of labor by excluding nonmembers from a craft, profession, or industry.

4. When there is an agreement between union and management, it consists mainly of an alliance by which management undertakes to enforce the union terms.

The price of labor in the market is determined by supply and demand. "Labor is not a commodity," according to a formulation which became a part of the Clayton Antitrust Act, and therefore its price ought not to be determined in the manner of commodities. But that is a semantic irrelevance, for whether labor is a commodity or not, it is offered for sale in the market, either in goods or services or directly to employers. The argument amounts to this, that the price of labor ought not to be determined in the market. That amounts to the position, however, that labor ought not to be offered for sale in the market.

How, then, is labor to be obtained? There are only two possibilities, though there are some variations as to extent. Labor must either be freely offered (and accepted) or it must be compelled. There is no evidence, to my knowledge, that labor unions are animated by the desire to have workers compelled to work, although some labor union leaders have been attracted by totalitarian systems. Their animus runs in the opposite direction, to have less work rather than more performed, less than would be freely done.

> The enduring contest on which permanent labor unions subsist is not unions versus management but union worker versus nonunion workers or competitors belonging to a different union.

Labor unions, then, still rely on labor being offered for sale and bought in the market. It follows, then, that the price must still be determined largely by supply and demand. (There may be elements of extortion involved in union activity, but the means of satisfying human wants are too numerous and varied for outright extortion to succeed for long in any other than a totalitarian system.) The thrust of labor unions, then, is to reduce the supply of labor available in order to raise the price

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for their members. The thrust is to exclude from availability competing workers.

Discrimination

On rare occasions, union men have stated candidly the nature of their undertaking. For example, when Local 35 of the International Brotherhood of Electrical Workers was hailed before the Connecticut Civil Rights Commission to answer charges that it discriminated against blacks, it attempted to avoid the charge in this way. "Local 35 argued that it had not violated the law because it discriminated against all races!"[5] Young John L. Lewis put the matter forthrightly when he spoke to a conference of union men and coal operators in the Midwest in 1901. He was explaining why they were conferring with one another:

> As I understand it, it is for the purpose of wiping out competition between us miners first, viewing it from our side of the question; next for the purpose of wiping out competition as between the operators in these four states. When we have succeeded in that and we have perfected an organization on both sides of the question, then as I understand the real purpose of this movement, it is that we will jointly declare war upon every man outside of this competitive field. . . .[6]

That is the best statement, too, the present writer has ever encountered of the idea of an alliance between unions and management.

Sometimes there is a confrontation between workers which reveals clearly the animus behind unionism. One such took place between Irishmen wanting work on the Chesapeake and Ohio Canal which was under construction in the 1830s. Workers from County Cork organized into a secret society which attempted to keep workers from Longford from working. Pitched battles ensued, and President Andrew Jackson eventually sent in troops to restore order. The ultimate object of the contending parties, according to an engineer who was present, was "to expel from the canal all except those that belong to the strongest party and thus secure for the remainder higher wages." According to an historian, "Laborers from Cork . . . sought to keep interloping Irishmen from competing with them for jobs on the canal."[7]

Why Force Is Used

It should be emphasized, however, that violence is not essential to unionism. It is sporadic and temporary, like the contentions between union and management. What is essential to unionism is the limitation on the supply of labor available and some means to induce employers not to avail themselves of the general supply. Some sort of coercion or intimidation is necessary to the union enterprise, however, for two reasons. In the first place, some means must be available to keep jobs from

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those who would seek the higher paying union jobs. And, secondly, some means must be used to get employers to accede to acting against their best interest, i. e., to pay more than they would otherwise have to do to get workers. Both experience and reason teach that these conditions are unlikely to prevail without coercion or intimidation.

Be that as it may, the American labor union originated as a means of excluding competing workers from jobs. A brief history of the beginnings will show that.

> The thrust of labor unions is to reduce the supply of labor available in order to raise the price for their members . . . to exclude competing workers.

The notion that labor unions involve primarily a conflict between themselves and management—a contest between employer and employee—introduces confusion from the outset in recounting the history of American labor unions. One history gives this account of what happened at Boston around 1760:

> The masters themselves sometimes joined forces to protect their interests. . . . Thirty-two master barbers "assembled at the Golden Ball, with a Trumpeter attending them," and jointly agreed to raise their rates for shaving from 8s. to 10s. per quarter, and "to advance 5s. on the Price of making common Wiggs and 10s. on their Tye ones." It was also proposed that "no one of their Faculty should shave or dress Wiggs on Sunday morning. . . ."[8]

The writer implies by the phrase, "the masters themselves," that this did not quite qualify as union behavior. On the contrary, it was the quintessence of union behavior. A labor union is an organization of those who perform the work in a trade, profession, or industry to gain a monopoly of such employment in order to establish conditions under which they will work. Whether they work for hire for one employer or serve the general public is irrelevant. There have been, and are, unions throughout the history of them made up largely of self-employed persons—such as barbers, plumbers, electricians, and so forth—who serve the general public. They function, as do all unions, to increase the rewards of their members by reducing the number who may so serve. (They may do so by intimidating non-members, by getting exacting qualifications passed into law, by charging high membership fees, or whatever.)

Unions were of little importance in the United States until well into the nineteenth century. Only in the 1830s did union membership constitute a significant portion of the population. For one thing, most Americans were farmers, and there

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the situation did not lend itself to unionization. For another, the courts were indisposed to tolerate disruptive tactics which they often described as the product of conspiracy.

Craftsmen Against Unskilled

There were, however, some efforts at organization, and it is important to understand what was involved. At the time of the founding of the United States, most manufacturing done for the public was done by skilled tradesmen. There were shoemakers, cordwainers, ironworkers, sailmakers, hatters, and such like. There were generally three ranks of such tradesmen: apprentices, journeymen, and masters. Apprentices had to and journeymen usually did work for a master craftsman. Masters sometimes formed trade associations, as already noted, and journeymen sometimes organized to effect conditions of employment. These relationships were traditional, however, and did not lend themselves much to what we think of as union activity.

It was the break-up of this mode of manufacturing by the use of machinery and the accompanying specialization that led to many attempts at organization. If I may generalize so broadly, what happened was that craftsmen organized in an effort to prevent the more specialized—and less skilled—workers from being employed. To put the matter somewhat grossly, it was the skilled craftsmen against the industrial workers. One historian has described these early conflicts this way:

> The biggest problem faced by skilled laborers was the competition they met from inferior workmen . . . whom employers hired in order to reduce their costs. The locals [organizations of skilled workmen], accordingly, sought to create strict rules concerning the number of apprentices to be employed in a shop and to establish a minimum wage; adoption of such a wage would force the employer to pay the same rates for both good and bad workmanship and, it was hoped, would eliminate the poor worker.[9]

Class Warfare

An account by another historian shows also that these unions were organized against other workers:

> . . . The attempts on the part of employers to lower standards by hiring untrained workers—foreigners and boys, eventually women—also led to vigorous efforts to enforce what today would be called a closed shop. The New York Typographical Society complained bitterly that the superabundance of learners, runaway apprentices and half-way journeymen undermine the wage rates of "full-fledged workers. . . ." There were many turnouts in this and later periods against employers who tried to take on artisans or mechanics who were not union members in good standing. . . .[10]

In the course of the nineteenth

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century, workers other than craftsmen were sometimes organized. That did not change the fact, however, that they were most directly organized against other workers. Workers against whom they were organized were frequently classified, and it is not unfair to assert that union people thought of them as classes. The broadest and most basic category of workers against whom unions were organized were categorized as "scabs"—those who would take a union man's job if he vacated it by walking out or going on strike. The first category in point of time was that of unskilled or lesser skilled workers, as already pointed out. Women were another class against which they were organized. One historian points out that the "natural tendency was to regard women solely as competition; accordingly, men alternately deplored, condemned, and bitterly opposed their use by employers."[11] Negroes constituted another class who encountered opposition. Unions were much less than enthusiastic about the abolition of slavery,[12] and once they were freed "violent clashes between white and Negro laborers became frequent in the northern industrial centers."[13]

Opposition to Immigrants

But the one class that excited the most determined opposition was immigrants. And, among immigrants, Orientals, particularly the Chinese, were the ones most opposed.[14] The union ire was focused at first on contract labor brought in from abroad. The nature of the union effort is illustrated by the following story. North Adams, Massachusetts had several prosperous shoe factories after the Civil War. Machines were introduced which greatly increased the number of shoes a workman could produce and reduced the skill required in doing it. The Knights of St. Crispin succeeded in organizing many of the craftsmen who were fearful of losing their jobs or having their pay reduced by bringing in less skilled workers. One employer hired an inexperienced workman, and the other workers went on strike. He sent to the West Coast and contracted for and brought in 75 Chinese to run his factory.[15] The unions were able to mount such strenuous opposition that the contract labor law was repealed and a Chinese Exclusion Act was passed. At about the same time, immigrants began to come, in ever increasing numbers, from southern

In opposing unskilled workers, women, Negroes, Chinese, and Europeans they were trying to exclude competing workers so as to get higher rewards for themselves.

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and eastern Europe. This aroused fervor for more and broader immigration restriction. An historian described the impetus behind it this way: "While middle-class critics of laissez-faire lent dignity, organized labor put pressure behind it. Indeed, the first concentrated attack on the new immigrants came from labor leaders."[16]

My point is *not* that union members were guilty of craft status, gender, racial, or ethnic prejudices. They may or may not have been, but that is incidental. My point is rather that in opposing unskilled workers, women, Negroes, Chinese, and Europeans they were doing what they are organized to do. Namely, they were trying to exclude competing workers from their undertaking so as to get higher rewards for themselves.

The most dramatic evidence of this occurs when unions resort to overt intimidation and violence. Most of this is visited upon other workers, though the fact is too seldom remarked, or is discussed as if it derived from some norm of human behavior. There have been instances, of course, when supervisory personnel, managers, and owners have been physically assaulted. One organization—the Molly Maguires—even concentrated on mayhem against foremen and managers.[17] But it was exceptional and short lived. Moreover, the general practice is that in labor disputes owners, managers, and supervisory personnel can go about their affairs unharmed. If the general public are the employers (in the case of plumbers, and such like) they are rarely molested in labor disputes.

Attacking Competing Workers

It is quite otherwise with competing workmen. The whole wrath—at least on the physical side—is usually focused on them. This has been so from the early days to the present. In the early nineteenth century, shoemakers walked out in Philadelphia. Six journeymen stayed on the job. "The strikers kept up a sharp eye for them and when they briefly emerged one Sunday night to visit a near-by tavern, beat them up severely." Moreover, there "was deep resentment against non-union workers who would take the place of strikers and attacks were not unusual upon persons already being called 'scabs.'"[18]

In 1880, when the Leadville Miner's Union struck in Leadville, Colorado, some of the mines tried to stay in operation. These events transpired:

> The managers employed every available man who could handle pick or shovel, hold a drill or swing a sledge. The strikers used every means at their command to keep men from going to work and to pull out those who were at work. . . . Every day, and sometimes twice each day, a "Committee," composed of several

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hundred strikers, made the rounds of the mines that were working. . . . Fists, clubs, and sometimes pistols, were used, but without fatal results.[19]

Violence at the Herrin Mines

Indeed, for something near to warfare to occur between contending groups of workers, when some workmen persist in working during a strike is not that unusual.[20] Perhaps the most horrendous example in American history occurred at Herrin, Illinois in 1922. A national coal strike had been called by the United Mine Workers. The Southern Illinois Coal Company decided to operate a strip mine near Herrin. The steam shovel operators they employed were members of a union, but their union had been suspended by the American Federation of Labor. John L. Lewis sent out a notice that theirs was an "outlaw organization" and that the operators should be treated the same as any other "strikebreakers."

Striking union men armed themselves and surrounded the strip mine. Shooting broke out, and three of the strikers were killed. Finally, a parley was held across the lines, and the workers were offered safe passage if they would throw down their arms and surrender. This they did. They were then lined up and marched toward Herrin under armed guard. The leader who had promised safety to those who would surrender was deposed and another took his place. What then occurred may best be related in the words of the grand jury:

> The surrendered men were then marched some 200 yards . . . to the vicinity of a barbed wire fence, where they were told they would be given a chance to run for their lives under fire.
>
> The firing began immediately, and thirteen of the forty-five were killed and most of the others were severely wounded.
>
> The mob pursued those who had escaped and two were hung to trees, six were tied together with a rope about their necks and marched through the streets of Herrin to an adjacent cemetery, where they were shot by the mob and the throats of three were cut. One of the six survived.[21]

It is only fair to note that the superintendent of the mine was also killed. He had been with the workers at the mine and had been instrumental in the surrender. He was crippled and could not keep up with the marchers. When he fell out, he was shot to death.

Even so, most of the violence and direct intimidation in strikes falls upon those who attempt to continue working or accept employment at a struck plant. Nor is this intimidation of workers simply a tactic for getting at employers. It is that, of course, but it is more. It is of a piece with virtually the whole of the union effort, which is to limit the supply of labor. When there is an

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attempt to operate a struck plant this attempt to reduce the labor supply takes on flesh and blood and force is often directly applied. At other times, the impact of unions on other workers has to be established by analysis, since it expresses itself in unemployment, employment at low wages, higher prices, decline in production, and underemployment.

Employers have often resisted unionization. Over two centuries, virtually every conceivable device has been used to discourage unions. Above all, most employers resisted the kind of recognition of the union which makes it the bargaining agent for all employees. But once an employer recognized a union, what was in his interest then changed in a significant way. He enters into an alliance with the union, however reluctantly, and the expansion of the union to include his competitors becomes his interest as well as that of the union.

The union aim generally is to organize all competing workmen in a trade, profession, or industry. If only some such workers are organized, their effort will likely come to naught, for the employer whose workers are organized will probably be driven out of business, or tradesmen will lose their clientele to others. It should be noted, however, that the employer's interest even in this respect diverges somewhat from that of the union he has recognized. Whether his competitors unionize or not is no particular concern of his. His main concern is that non-union competitors be removed from the field so that their products not compete with his. In so far as this is accomplished with the proclaimed goal of unionization, the aims of the union and the unionized employer may become as one.

> Once an employer recognizes—enters into an alliance with the union—the expansion of the union to include his competitors becomes his interest as well as that of the union.

> "As I understand the real purpose of this movement, it is that we will jointly declare war upon every man outside of this competitive field."

The Boycott

The most direct device for eliminating non-union competitors is the boycott. Sometimes boycotts have been carried out by open agreements between unionized employers and unions. A flamboyant case of a combination between building contractors and union to keep out competition occurred in New York City in the 1930s. In fact, local

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manufacturers of equipment were also in on it.

> . . . One of the three parties to this combination, Local 3 of the International Brotherhood of Electrical Workers, was interested in broadening the work opportunities of its members, who were employed by the local contractors and the local manufacturers. The local manufacturers were interested in monopolizing the metropolitan market for their products. . . . The local union contractors were interested in having more equipment built on the job . . . and also in the protection afforded them as dealers by the union agreement to handle only manufactured products that were purchased by the contractor.[22]

Suit was eventually brought against this combination under the anti-trust acts. When the case was appealed to the Supreme Court that body affirmed that it was in violation of the anti-trust acts, but only because unions had acted in conjunction with business.[23] In the 1940s, when William L. Hutcheson, longtime head of the United Brotherhood of Carpenters and Joiners of America, was brought to court by the government for repeated boycotts in jurisdictional disputes with other unions, the suit failed. The Supreme Court held that he was not culpable because only unions were involved.[24]

In any case boycotts have usually been conducted by unions without overt aid from employers. The Knights of Labor had employed the boycott extensively in the latter part of the nineteenth century.[25] But the most aggressive use of the boycott was by the American Federation of Labor in the 1920s, 1930s and 1940s. They used it, of course, in jurisdictional disputes with other unions, but also extensively to try to exclude non-union made products from commerce. No unions were more effective in this than the Longshoremen's, for they operated at pivotal points for blocking the transport of goods. One such boycott was undertaken in San Francisco in 1916. Here is a brief account of it:

> In total disregard of federal laws the union boldly proposed to interfere with the shipping of commodities which were classed as nonunion or unfair, in order to fasten closed-shop conditions not only upon the port of San Francisco but upon the entire Pacific Coast. Sugar landed on the docks was refused unloading because somewhere on its journey it had been handled by nonunion men. A shipment of shingles was embargoed because the shingles had been made in an open shop. . . .[26]

And so it went.

Conclusion

Masses of evidence could be compiled to support the conclusion that labor unions are organized, basically, against other workers. The evidence that they engage in open conflict mainly with other workers can hardly be disputed. Reason clearly supports the conclusion that unions

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can only succeed in getting higher rewards for their members by reducing the available supply of labor. That when a union is recognized by a company an alliance has been formed is largely an inference, albeit a logical one. Of course, unions have done many things which do not fit closely into this pattern, but when the matter is surveyed broadly the conclusion emerges that unions are organized against other workers primarily.

It is greatly to be doubted that labor unions would have gained much of a following had they flown those colors. In any case, they did not. In fact, unions made little headway for most of the nineteenth century. It was only after they had adopted an ideology which helped to conceal what they were about that they began to gain anything like widespread adherence.

—FOOTNOTES—

[1]Thomas A. Bailey and David M. Kennedy, *The American Pageant* (Lexington, Mass.: D. C. Heath, 1979), p. 501.

[2]Charles S. Miller and Natalie Joy Ward, *History of America* (New York: John Wylie and Sons, 1971), p. 432.

[3]Henry W. Bragdon and Samuel P. McCutchen, *History of a Free People* (New York: Macmillan, 1978), p. 289.

[4]Samuel E. Morison, *The Oxford History of the American People* (New York: Oxford University Press, 1965), p. 768.

[5]Ray Marshall, *The Negro Worker* (New York: Random House, 1967), p. 75.

[6]Walter G. Merritt, *Destination Unknown* (New York: Prentice-Hall, 1951), p. 151.

[7]Richard B. Morris, "Andrew Jackson, Strikebreaker," *American Historical Review*, vol. 55, p. 55.

[8]Foster R. Dulles, *Labor in America* (New York: Thomas Y. Crowell, 1960, 2nd rev. ed.), p. 21.

[9]Joseph G. Rayback, *A History of American Labor* (New York: Macmillan, 1959), p. 55.

[10]Dulles, *op. cit.*, p. 27.

[11]Rayback, *op. cit.*, p. 121.

[12]See *ibid.*, p. 100.

[13]*Ibid.*, p. 122.

[14]See, for example, Joseph R. Buchanan, *The Story of a Labor Agitator* (Freeport, N.Y.: Books for Libraries Press, 1971), p. 66.

[15]Frederick Rudolph, "Chinamen in Yankeedom: Anti-Unionism in Massachusetts in 1870," *American Historical Review*, vol. 53, pp. 1-29.

[16]John Higham, "Origins of Immigration Restriction, 1882-1897: A Social Analysis," *Mississippi Valley Historical Review*, vol. 39, p. 81.

[17]See James F. Rhodes, "The Molly Maguires in the Anthracite Region of Pennsylvania," *American Historical Review*, vol. 15, pp. 547-61.

[18]Dulles, *op. cit.*, p. 28.

[19]Buchanan, *op cit.*, p. 14.

[20]For recent examples, see Sylvester Petro, *The Kohler Strike* (Chicago: Henry Regnery, 1961), p. 45 *et. passim: The Kingsport Strike* (New Rochelle, N.Y.: Arlington House, 1967), pp. 154-57.

[21]Merritt, *op cit.*, p. 154.

[22]*Ibid.*, p. 103.

[23]*Ibid.*, p. 109.

[24]Maxwell C. Raddock, *Portrait of an American Labor Leader: William L. Hutcheson* (New York: American Institute of Social Science, 1955), p. 249.

[25]See Norman J. Ware, *The Labor Movement in the United States* (Gloucester, Mass.: Peter Smith, 1959), pp. 334-45.

[26]Merritt, *op. cit.*, p. 160.

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James C. Patrick

How to Live Well

WE HEAR and read so much about money that it is a good thing occasionally to put things back in perspective. In the final analysis, money is a *means,* not an end in itself. Money is a medium of exchange. What we really need and want are the things for which we can exchange money—the goods and services that we must obtain from other people.

In order to get those goods and services, we must produce some goods or services ourselves because ultimately, people exchange goods and services for goods and services.

To be sure, some people are not required to produce but are supported by the rest of us. For example, small children, some of the elderly, and the helpless members of society live by our productivity. But somebody must produce, in order to support such people. We don't eat or wear money; we eat food and wear clothing, and those things must be produced.

Through the years people here and in certain other countries have been able to live better because of improving productivity. In 1770, we are told, a laborer had to work five days to buy a bushel of wheat, but his grandson could get a bushel for two and a half days' wages in 1870. And in 1970, the typical American worker could purchase two or three bushels of wheat with one *hour's* pay.

A few years ago the president of an insurance company at Rock Island, Illinois, made a telling point. He said that some people are "beginning to conclude that our present standards of living, production and accomplishment have been reached as a result of . . . Social Security, unemployment insurance, public housing, price controls, poverty and welfare programs, farm price supports, and aid programs to this and that. . . . One is reminded of the rooster who noticed that every morning when he crowed the sun arose in the east. Before long he concluded that the sun arose because he crowed."

No, it is not government programs that improve human well-being; nor is it money. Rather, it is human effort, intelligence, and productivity. What is needed is more of these elements if people are to live well. ⊕

Mr. Patrick holds a Master of Divinity degree from Yale and has filled many lay offices as a churchman. A former chamber of commerce executive, he now is an officer in a group of small-town banks in Illinois. The message here is from his broadcast of August 1, 1979 as a volunteer commentator, radio WSOY, Decatur, Illinois.

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Henry Hazlitt

The Sphere of Government

Nineteenth Century Theories: *1. John Stuart Mill*

I remarked in "The Case for the Minimal State" (*The Freeman*, November 1979) that we might get some help in dealing with the central problems of government power by examining the answers offered over the years by the great political thinkers. But I suggested it might be more interesting to do this rather in the reverse of their chronological order, and begin with the latest answers first. We accordingly began with the recent book by Robert Nozick, *Anarchy, State, and Utopia.* I should like now to turn to some of the answers offered in the nineteenth century.

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times, Newsweek, The Freeman, Barron's, Human Events* and many others. Among the more recent of his numerous books are *The Inflation Crisis and How to Resolve It* and a revised edition of *Economics in One Lesson.*

To try to present the whole of nineteenth century thought on this subject would in itself require at least a full-length book and probably a repetitious one. So I shall confine myself to the answers offered by three or four outstanding writers who seem to me to offer representative approaches—John Stuart Mill, Herbert Spencer, Thomas Huxley, and Auberon Herbert.

Mill's main discussion of the problem occurs in Volume II (Book V, Chapters I and IX) of his *Principles of Political Economy,* first published in 1848. When one recalls that Mill was brought up in the laissez-faire tradition, some of his conclusions may seem surprising.

He begins by distinguishing between the "necessary" and the "optional" functions of government. The first are those which "are either

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inseparable from the idea of government, or are exercised habitually and without objection by all governments." The second are those functions of which the "expediency of its exercising them does not amount to necessity" and "on which diversity of opinion does or may exist."

Mill's Extended List of Necessary Functions of Government

The necessary functions of government, he insists, are "considerably more multifarious than most people are at first aware of." The contention, for example, that "governments ought to confine themselves to affording protection against force and fraud," and "that, these two things apart, people should be free agents," is much too narrow. What about, for example, the laws of inheritance? Not only is the government obliged to decide what happens to an estate when there is no will; it must pass on the validity of a will; it must decide among litigants.

Again, the government must enforce contracts. It must decide what contracts are fit to be enforced. (A contract to do something contrary to law? A contract to sell oneself into slavery?) The state must also establish civil tribunals to settle disputes. It must keep a registry of facts, such as births, deaths, marriages, wills and contracts, and judicial proceedings. It must decide on the legal competency of children, or alleged lunatics, and provide for guardians. It may undertake the function of coining money, and of prescribing a set of standard weights and measures. It may make or improve harbors, build lighthouses, make surveys for accurate maps and charts, raise dykes to keep the sea out, or embankments to keep rivers in. National governments may build roads, and municipal governments may pave, light, and clean the streets. "Examples might be indefinitely multiplied without intruding on any disputed ground."

In a later chapter, Mill considers some of the reasons for limiting government power. "There is a part of the life of every person who has come to years of discretion, within which the individuality of that person ought to reign uncontrolled either by any other individual or by the public collectively. . . . A second general objection to government agency is that every increase of the functions devolving on the government is an increase in its power"—which may soon become "arbitrary." . . . "A third general objection to governmental agency rests on the principle of the division of labor. Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties. A natural consequence is that most

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things are ill done; much not done at all."

There follows a long description of the reasons why, in general, private enterprise and initiative are more efficient than government in carrying on any enterprise. In every instance these reasons are more than sufficient, Mill concludes, to throw "the burden of making out a strong case, not on those who resist, but on those who recommend, government interference. Laisser-faire, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil." He supplements this with a recital of the incredible restraints on business imposed historically in seventeenth-century France and elsewhere.

But then Mill turns to what he regards as the "exceptions" to the generally beneficent rule of laissez-faire. "The proposition that the consumer is a competent judge of the commodity, can be admitted only with numerous abatements and exceptions. . . . The uncultivated cannot be competent judges of cultivation. Those who need most to be made wiser and better, usually desire it least, and if they desired it, would be incapable of finding the way to it by their own lights. . . . Education, therefore, is one of those things which it is admissible in principle that a government should provide for the people. . . .

"With regard to elementary education, the exception to ordinary rules may, I conceive, justifiably be carried still further. . . . It is therefore an allowable exercise of the powers of government, to impose on parents the legal obligation of giving elementary instruction to children. This, however, cannot fairly be done, without taking measures to insure that such instruction shall be always accessible to them, either gratuitously or at a trifling expense." The one safeguard Mill insists on is that "the government must claim no monopoly for its education."

More Exceptions

Mill continues with his "exceptions" to the principle of laissez-faire. "Insane persons are everywhere regarded as proper objects of the care of the state." "It is right that children and young persons . . . should be protected, as far as the eye and hand of the state can reach, from being over-worked." "Cruelty to animals" should be forbidden. "The law should be extremely jealous" of all "engagements for life"—including marriage. If it grants a monopoly for a private road, canal, or railway, the state "should retain, and freely exercise, the right of fixing a maximum of fares and charges."

The state should have the right to diminish the hours of adult labor.

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Mill approves the Poor Laws, and endorses the principles of the Poor Law of 1834. "The claim to help, created by destitution, is one of the strongest that can exist." But the problem is "how to give the greatest amount of needful help, with the smallest encouragement to undue reliance on it." For "if the condition of a person receiving relief is made as eligible as that of the laborer who supports himself by his own exertions, the system strikes at the root of all individual industry and self-government." Yet we cannot depend on "voluntary charity." "In the first place, charity almost always does too much or too little: it lavishes its bounty in one place, and leaves people to starve in another. Secondly, since the state must necessarily provide subsistence for the criminal poor while undergoing punishment, not to do the same for the poor who have not offended is to give a premium on crime."

Mill goes on to recommend government subsidies for colonization, for "scientific researches," and for other modes "of insuring to the public the services of scientific discoverers."

And as a final argument for extending government power still further, he adds: "The intervention of government cannot always practically stop short at the limit which defines the cases intrinsically suitable for it. In the particular circumstances of a given age or nation, there is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself, not because private individuals cannot effectually perform it, but because they will not."

An Open-Ended Formula

This last argument is capable of serving as an excuse for almost any arbitrary government intervention whatever. Mill ends by granting most of the contentions of the present-day statists. As he keeps adding to his list of "exceptions" to the general rule of laissez-faire, he gradually seems to forget all his earlier warnings against piling an unmanageable number of functions on the state and building excessive powers that can more easily be abused. In many of his exceptions he unconsciously takes it for granted that the state will necessarily do better than private initiative. He overlooks the possibility that scientists may be subsidized on the basis of favoritism or that the subsidized projects will be selected on the basis of political rather than scientific appeal.

After having warned us that the state may carry out its delegated powers very badly, he assumes in particular instances that they will carry out these powers very well. He

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rightly approved the restrictive principles of the Poor Law of 1834, which required from the applicant for relief, as Nassau Senior put it, "monotonous and uninteresting" toil in a workhouse, so that he would retain an incentive to become again as soon as possible an independent laborer. What Mill did not foresee was the immense political difficulty of retaining such a disciplinary system once relief was embarked upon. He did not foresee that this disciplinary system would soon come to be regarded by a large part of the public as needlessly harsh and even heartless. The sentimental but powerful pen of Charles Dickens, for example, was shortly to make the retention of the workhouse system impossible. The almost inevitable tendency in any relief system is for demagogic politicians to remove one by one all the original restraints and safeguards and to load the relief rolls to the point where work incentives are destroyed, the national budget becomes chronically unbalanced, and a progressive inflation sets in.

Even more broadly, what Mill overlooked was that once these broad powers of control were put in the hands of the state, under a popularly-elected government, that government would be very unlikely to adhere to the sound economic (and anti-interventionist) principles that Mill, and other economists of his school, were recommending in their textbooks, but would enact popular prejudices leading to inflation, to price-controls, to "soak-the rich" taxes, to the redistribution of wealth and income, to anti-capitalistic and anti-productive policies of every other kind, and incidentally to the eventual destruction of liberty.

In his essays on *Liberty,* on *Representative Government,* and on *The Subjection of Women,* Mill made important contributions to political theory. But on the central question of what ought to be the limits of government power, he clearly granted too much. He left unanswered the great problem: How can we retain interventionist democratic government and yet prevent majority rule from degenerating into mob rule?

IDEAS ON LIBERTY

Alexis de Tocqueville

To manage these minor affairs in which good sense is all that is wanted, the people are held to be unequal to the task; but when the government of the country is at stake, the people are invested with immense powers; they are alternately made the playthings of their ruler, and his masters—more than kings, and less than men.

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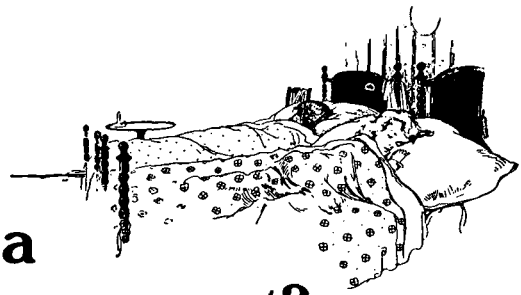
Randall R. Rader

Do You *Really* Believe in a Limited Government?



Is a philosophy of limited government worth the worry? Last night, in an introspective moment, I was compelled to reevaluate that very question. I had just returned from an exhausting choir practice. My conscience felt a pang when my eyes fell on the unanswered letter from my parents. Lisa, my adopted black daughter, was loudly vocalizing her displeasure with the circumstances of the moment. Larke, the world's cutest four-year-old blonde, would not wait another minute for her nightly bedtime story. The open Sunday School manual on the kitchen table was a grim reminder that my lesson was not yet prepared. When would I have time to prepare it? Tomorrow my softball team entered the all-day play-offs in the morning and the evening featured another choir rehearsal. These various demands converged on me in an instant. Just the thought of straining to reach another high A, composing letters to my parents, changing diapers, putting a new twist into the "Three Bears," searching for elusive Bible passages, or chasing fly balls in centerfield sent me stumbling for my easy chair. A philosophy of limited government is not easy to live.

Each of these demands is an integral part of my effort to live according to principles of limited government. If an individual really shares Jefferson's view—"That government is best that governs least"—he must make provision in his own life to take responsibility for essential services that government should not be allowed to monopolize.

For example, no civilized society

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will deny that art is necessary to inspire and uplift the human mind and spirit. Therefore, if we citizens do not devote ourselves to creativity, the government will tax everyone (force us) to set up an agency to subsidize artists. But forced government programs cannot satisfy the real need for ennobling art. Creativity cannot be forced; artists need absolute freedom to develop sensitivity (often through personal sacrifice) to the symbols and truths they elucidate. Hence, I sing tenor several nights a week on top of a cramped schedule.

Family Obligations

No charitable society will allow the aged to suffer deprivations when they can no longer care for themselves. Therefore, if we do not care for our own parents or the elderly in our greater family units, the government will tax everyone (force us) to set up massive nursing home programs. But forced government programs cannot meet the real needs of the aged. Love cannot be forced; the elderly need the love and respect of their posterity as much as they need food and shelter. Hence, I must strengthen my ties to my own parents.

No enlightened society overlooks that counseling is necessary to train youth to accept responsibility. Therefore, if we do not see that our own children are schooled in the principles we have experienced as the basis for worthwhile living, the government will tax everyone (force us) to subsidize mandatory counseling sessions for teenage youth. But forced government programs cannot meet the real needs of youth. Will to learn and desire to develop a well-rounded attitude toward life cannot be forced; young people need the guidance of loving parents (long before they are teenagers) to instill this will far more than they need compulsory counseling. Hence, Larke gets a nightly dose of love from her father.

No self-respecting society will deny that all men are of equal worth and deserve equal respect. Therefore, if we do not openly welcome all qualified citizens regardless of race into our civic associations, schools, and clubs, the government will tax everyone (force us) to bus students and institute civil rights lawsuits. But government cannot eliminate racial discrimination at all because by taking sides in any racial conflict it is giving the force of law to, and thereby perpetuating, distinctions based on race. Respect cannot be forced. The disadvantaged and minorities want no special privileges; they want only to be welcomed as any other individual into those schools, clubs, and associations for which they qualify. Hence, Lisa gets exactly the same dose of love that Larke enjoys.

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No merciful society will leave abandoned children without some means of support. Therefore, if we do not open our homes to parentless children, the government will tax everyone (force us) to create a national system of foster homes. But forced government programs cannot meet the real needs of parentless children. Parenting cannot be forced; these children need more than a bed and three meals a day. Hence, Lisa gets an affectionate kiss with every diaper change.

Moral Standards

No ethical society will refuse to accept that some moral standards are essential to its survival. Therefore, if churches and families do not teach honesty, the government must tax everyone (force us) to set up expensive crime prevention programs or juvenile correction institutions. But forced government programs cannot meet real needs of youth and mature alike for moral guidelines. Lasting respect for the property and persons of others cannot be forced; youth and mature alike need motivating clergy and friends to care enough about them to present them with constructive alternatives to destructive behavior. Hence, my duty as a Sunday School teacher cannot be taken lightly.

No humane nation wants to leave others to endure poor health, the specter of a life with pain. Therefore, if we do not eat correctly, exercise regularly, avoid harmful agents (cigarettes, narcotics, and the like) to remain healthy, the government will tax everyone (force us) to create an unwieldy national health program. But forced government programs which treat people in bulk, instead of as individuals, cannot supply universal health. Good health habits cannot be forced; an end to pain cannot be legislated. As long as men are mortal, some will experience disease and misery. Government cannot prevent that. Individuals must, however, take primary responsibility for their own health, which includes practicing good health habits. Hence, softball season will be followed by basketball for me.

Individuals within societies, and hence societies themselves, have many legitimate needs. Therefore, if we do not make provision to meet our own personal needs first and then supply service to others (itself a primary personal need), the government will tax everyone (force us) to try to satisfy those needs. Although its efforts are sincere and do apply a bandaid to deep wounds, government can never completely meet real needs. Lasting solutions are only realized when individuals learn to and acquire the strength to meet their own needs. This cannot be forced, only encouraged.

I am not suggesting that govern-

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ment has no role in meeting individual/societal needs. Instead it should have a very limited role. It should be a last line of defense.

If we profess a philosophy of limited government, we profess in the same breath a faith in unlimited personal responsibility. When I arrived home last night, that thought made me tired. Yet everything worth having in life must be earned: health, respect, creativity, friendship, and so forth. Government cannot meet the need because, in most instances, the need is for personal effort or activity or growth. If we do not believe in pervasive government, we must believe in pervasive individual, family, church, and community responsibility. ⊕

IDEAS ON LIBERTY

Life's Deeper Meaning

Out of all these material gains none compares to the greater gain in finding that life is more than the bread and bed. This is what America stands for. There was much reward outside of material gain in the pioneer life of our forefathers. To be a good neighbor was rewarding. To be a responsible citizen brought recognition. The secret of our very successful youth agencies such as the Boy Scouts, the 4-H Clubs, the Future Farmers, and similar organizations may be that they recognize the worthiness of any achievement or the extra mile of any individual.

In a government-controlled system much of this may be lost, because why go an extra mile when some get rewards just because they exist as numbers? This is why we do not want a system of government where the State and its agents make the rules. But to avoid such an order for the masses, we must each of us become individuals who make it a part of our character to go the extra mile on every road and do every task beyond the call of duty, not just for a state or organization or institution or company, but for much more than these:—for the dignity of man and his chance to be worthy of being free to choose.

The reward for the extra miles may come in promotions and increased pay, but more than such remunerations will be the compensation that will come out of the growing inward satisfaction and the respect and love of our neighbors. These gains must be earned.

GEORGE D. SCARSETH, "That Extra Mile"

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Ludwig von Mises

Socialism

I am in Buenos Aires as a guest of the Centro de Difusión de la Economía Libre. What is *economía libre?* What does this system of economic freedom mean? The answer is simple: it is the market economy, it is the system in which the cooperation of individuals in the social division of labor is achieved by the market. This market is not a place; it is a *process,* it is the way in which, by selling and buying, by producing and consuming, the individuals contribute to the total workings of society.

In dealing with this system of economic organization—the market economy—we employ the term "economic freedom." Very often, people misunderstand what it means, believing that economic freedom is something quite apart from other freedoms and that these other freedoms—which they hold to be more important—can be preserved even in the absence of economic freedom. The meaning of economic freedom is this: that the individual is in a position to *choose* the way in which he wants to integrate himself into the totality of society. The individual is able to choose his career, he is free to do what he *wants* to do.

This is of course not meant in the sense which so many people attach to the word freedom today; it is meant rather in the sense that, through economic freedom, man is freed from natural conditions. In nature, there is nothing that can be termed freedom, there is only the regularity of the laws of nature, which man must obey if he wants to attain something.

In using the term freedom as applied to human beings, we think only of the freedom *within society.* Yet, today, social freedoms are considered by many people to be independent of each other. Those who call themselves "liberals" today are asking for policies which are pre-

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cisely the opposite of those policies which the liberals of the nineteenth century advocated in their liberal programs. The so-called liberals of today have the very popular idea that freedom of speech, of thought, of the press, freedom of religion, freedom from imprisonment without trial—that all these freedoms can be preserved in the absence of what is called economic freedom. They do not realize that, in a system where there is no market, where the government directs everything, all those other freedoms are illusory, even if they are made into laws and written up in constitutions.

Let us take one freedom, the freedom of the press. If the government owns all the printing presses, it will determine what is to be printed and what is not to be printed. And if the government owns all the printing presses and determines what shall or shall not be printed, then the possibility of printing any kind of opposing arguments against the ideas of the government becomes practically nonexistent. Freedom of the press disappears. And it is the same with all the other freedoms.

Freedom in Society

In a market economy, the individual has the freedom to choose whatever career he wishes to pursue, to choose his own way of integrating himself into society. But in a socialist system, that is not so: his career is decided by decree of the government. The government can order people whom it dislikes, whom it does not want to live in certain regions, to move into other regions and to other places. And the government is always in a position to justify and to explain such procedure by declaring that the governmental plan requires the presence of this eminent citizen five thousand miles away from the place in which he could be disagreeable to those in power.

It is true that the freedom a man may have in a market economy is not a perfect freedom from the metaphysical point of view. But there is no such thing as perfect freedom. Freedom means something only within the framework of society. The eighteenth-century authors of "natural law"—above all, Jean Jacques Rousseau—believed that once, in the remote past, men enjoyed something called "natural" freedom. But in that remote age, individuals were not free, they were at the mercy of everyone who was stronger than they were. The famous words of Rousseau: "Man is born free and everywhere he is in chains" may sound good, but man is in fact *not* born free. Man is born a very weak suckling. Without the protection of his parents, without the protection given to his parents by society, he would not be able to preserve his life.

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PHOTO BY DAVID JARRETT

Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at $4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Freedom in society means that a man depends as much upon other people as other people depend upon him. Society under the market economy, under the conditions of "economía libre," means a state of affairs in which everybody serves his fellow citizens and is served by them in return. People believe that there are in the market economy bosses who are independent of the good will and support of other people. They believe that the captains of industry, the businessmen, the entrepreneurs are the real bosses in the economic system. But this is an illusion. The real bosses in the economic system are the consumers. And if the consumers stop patronizing a branch of business, these businessmen are either forced to abandon their eminent position in the economic system or to adjust their actions to the wishes and to the orders of the consumers.

One of the best-known propagators of communism was Lady Passfield, under her maiden name Beatrice Potter, and well-known under the name of her husband Sidney Webb. This lady was the daughter of a wealthy businessman and, when she was a young adult, she served as her father's secretary. In her memoirs she writes: "In the business of my father everybody had to obey the orders issued by my father, the boss. He alone had to give orders, but to him nobody gave any orders." This is a very short-sighted view. Orders *were* given to her father by the consumers, by the

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buyers. Unfortunately, she could not see *these* orders; she could not see what goes on in a market economy, because she was interested only in the orders given within her father's office or his factory.

Sovereign Consumers

In all economic problems, we must bear in mind the words of the great French economist Frédéric Bastiat, who titled one of his brilliant essays: *"Ce qu'on voit et ce qu'on ne voit pas"* ("What you see and what you do not see"). In order to comprehend the operation of an economic system, we must deal not only with the things that can be seen, but we also have to give our attention to the things which cannot be perceived directly. For instance, an order issued by a boss to an office boy can be heard by everybody who is present in the room. What cannot be heard are the orders given to the boss by his customers.

The fact is that, under the capitalistic system, the ultimate bosses are the consumers. The sovereign is not the state, it is the people. And the proof that they are the sovereign is borne out by the fact that they have *the right to be foolish.* This is the privilege of the sovereign. He has the right to make mistakes, no one can prevent him from making them, but of course he has to pay for his mistakes. If we say the consumer is supreme or that the consumer is sovereign, we do not say that the consumer is free from faults, that the consumer is a man who always knows what would be best for him. The consumers very often buy things or consume things they ought not to buy or ought not to consume.

But the notion that a capitalist form of government can prevent people from hurting themselves by controlling their consumption is false. The idea of government as a paternal authority, as a guardian for everybody, is the idea of those who favor socialism. In the United States some years ago, the government tried what was called "a noble experiment." This noble experiment was a law making it illegal to consume intoxicating beverages. It is certainly true that many people drink too much brandy and whiskey, and that they may hurt themselves by doing so. Some authorities in the United States are even opposed to smoking. Certainly there are many people who smoke too much and who smoke in spite of the fact that it would be better for them not to smoke. This raises a question which goes far beyond economic discussion: it shows what freedom really means.

Granted, that it is good to keep people from hurting themselves by drinking or smoking too much. But once you have admitted this, other people will say: Is the body everything? Is not the mind of man much more important? Is not the mind of

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man the real human endowment, the real human quality? If you give the government the right to determine the consumption of the human body, to determine whether one should smoke or not smoke, drink or not drink, there is no good reply you can give to people who say: "More important than the body is the mind and the soul, and man hurts himself much more by reading bad books, by listening to bad music and looking at bad movies. Therefore it is the duty of the government to prevent people from committing these faults."

And, as you know, for many hundreds of years governments and authorities believed that this really *was* their duty. Nor did this happen in far distant ages only; not long ago, there was a government in Germany that considered it a governmental duty to distinguish between good and bad paintings—which of course meant good and bad from the point of view of a man who, in his youth, had failed the entrance examination at the Academy of Art in Vienna; good and bad from the point of view of a picture-postcard painter. And it became illegal for people to utter other views about art and paintings than those of the Supreme Führer.

Once you begin to admit that it is the duty of the government to control your consumption of alcohol, what can you reply to those who say the control of books and ideas is much more important?

Freedom to Make Mistakes

Freedom really means *the freedom to make mistakes.* This we have to realize. We may be highly critical with regard to the way in which our fellow citizens are spending their money and living their lives. We may believe that what they are doing is absolutely foolish and bad, but in a free society, there are many ways for people to air their opinions on how their fellow citizens should change their ways of life. They can write books; they can write articles; they can make speeches; they can even preach at street corners if they want—and they do this, in many countries. But they must *not* try to police other people in order to prevent them from doing certain things simply because they themselves do not want these other people to have the freedom to do it.

This is the difference between slavery and freedom. The slave must do what his superior orders him to do, but the free citizen—and this is what freedom means—is in a position to choose his own way of life. Certainly this capitalistic system can be abused, and is abused, by some people. It is certainly possible to do things which ought not to be done. But if these things are approved by a majority of the people, a disapproving person always has a

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way to attempt to change the minds of his fellow citizens. He can try to persuade them, to convince them, but he may not try to force them by the use of power, of governmental police power.

Status and Caste

In the market economy, everyone serves his fellow citizens by serving himself. This is what the liberal authors of the eighteenth century had in mind when they spoke of the harmony of the rightly understood interests of all groups and of all individuals of the population. And it was this doctrine of the harmony of interests which the socialists opposed. They spoke of an "irreconcilable conflict of interests" between various groups.

What does this mean? When Karl Marx—in the first chapter of the *Communist Manifesto,* that small pamphlet which inaugurated his socialist movement—claimed that there was an irreconcilable conflict between classes, he could not illustrate his thesis by any examples other than those drawn from the conditions of precapitalistic society. In precapitalistic ages, society was divided into hereditary status groups, which in India are called "castes." In a status society a man was not, for example, born a Frenchman; he was born as a member of the French aristocracy or of the French bourgeoisie or of the French peasantry. In the greater part of the Middle Ages, he was simply a serf. And serfdom, in France, did not disappear completely until after the American Revolution. In other parts of Europe it disappeared even later.

But the worst form in which serfdom existed—and continued to exist even after the abolition of slavery—was in the British colonies abroad. The individual inherited his status from his parents, and he retained it throughout his life. He transferred it to his children. Every group had privileges and disadvantages. The highest groups had only privileges, the lowest groups only disadvantages. And there was no way a man could rid himself of the legal disadvantages placed upon him by his status other than by fighting a political struggle against the other classes. Under such conditions, you could say that there was an "irreconcilable conflict of interests between the slave owners and the slaves," because what the slaves wanted was to be rid of their slavery, of their quality of being slaves. This meant a loss, however, for the owners. Therefore there is no question that there had to be this irreconcilable conflict of interests between the members of the various classes.

One must not forget that in those ages—in which the status societies were predominant in Europe, as well as in the colonies which the

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Europeans later founded in America—people did not consider themselves to be connected in any special way with the other classes of their own nation; they felt much more at one with the members of their own class in other countries. A French aristocrat did not look upon lower class Frenchmen as his fellow citizens; they were the "rabble," which he did not like. He regarded only the aristocrats of other countries—those of Italy, England, and Germany, for instance—as his equals.

The most visible effect of this state of affairs was the fact that the aristocrats all over Europe used the same language. And this language was French, a language which was not understood, outside France, by other groups of the population. The middle classes—the bourgeoisie—had their own language, while the lower classes—the peasantry—used local dialects which very often were not understood by other groups of the population. The same was true with regard to the way people dressed. When you travelled in 1750 from one country to another, you found that the upper classes, the aristocrats, were usually dressed in the same way all over Europe, and you found that the lower classes dressed differently. When you met someone in the street, you could see immediately—from the way he dressed—to which class, to which status he belonged.

It is difficult to imagine how different these conditions were from present-day conditions. When I come from the United States to Argentina and I see a man on the street, I cannot know what his status is. I only assume that he is a citizen of Argentina and that he is not a member of some legally restricted group. This is one thing that capitalism has brought about. Of course, there are also differences within capitalism. There are differences in wealth, differences which Marxians mistakenly consider to be equivalent to the old differences that existed between men in the status society.

Aristocratic Wealth

The differences within a capitalist society are not the same as those in a socialist society. In the Middle Ages—and in many countries even much later—a family could be an aristocrat family and possess great wealth, it could be a family of dukes for hundreds and hundreds of years, whatever its qualities, its talents, its character or morals. But, under modern capitalistic conditions, there is what has been technically described by sociologists as "social mobility." The operating principle of this social mobility, according to the Italian sociologist and economist Vilfredo Pareto, is "la circulation des élites" (the circulation of the elites). This means that there are

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always people who are at the top of the social ladder, who are wealthy, who are politically important, but these people—these elites—are continually changing.

This is perfectly true in a capitalist society. It was *not* true for a precapitalistic status society. The families who were considered the great aristocratic families of Europe are still the same families today or, let us say, they are the descendants of families that were foremost in Europe, 800 or 1000 or more years ago. The Capetians of Bourbon—who for a very long time ruled here in Argentina—were a royal house as early as the tenth century. These kings ruled the territory which is known now as the Ile-de-France, extending their reign from generation to generation. But in a capitalist society, there is continuous mobility—poor people becoming rich and the descendants of those rich people losing their wealth and becoming poor.

Wealth under Capitalism

Today I saw in a bookshop in one of the central streets of Buenos Aires the biography of a businessman who was so eminent, so important, so characteristic of big business in the nineteenth century in Europe that, even in this country, far away from Europe, the bookshop carried copies of his biography. I happen to know the grandson of this man. He has the same name his grandfather had, and he still has a right to wear the title of nobility which his grandfather—who started as a blacksmith—had received eighty years ago. Today this grandson is a poor photographer in New York City.

Other people, who were poor at the time this photographer's grandfather became one of Europe's biggest industrialists, are today captains of industry. Everyone is free to change his status. This is the difference between the status system and the capitalist system of economic freedom, in which everyone has only himself to blame if he does not reach the position he wants to reach.

The most famous industrialist of the twentieth century up to now is Henry Ford. He started with a few hundred dollars which he had borrowed from his friends, and within a very short time he developed one of the most important big business firms of the world. And one can discover hundreds of such cases every day.

Every day, the *New York Times* prints long notices of people who have died. If you read these biographies, you may come across the name of an eminent businessman, who started out as a seller of newspapers at street corners in New York. Or he started as an office boy, and at his death he is the president of the same banking firm where he

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started on the lowest rung of the ladder. Of course, not all people can attain these positions. Not all people *want* to attain them. There are people who are more interested in other problems and, for these people, other ways are open today which were not open in the days of feudal society, in the ages of the status society.

The socialist system, however, *forbids* this fundamental freedom to choose one's own career. Under socialist conditions, there is only one economic authority, and it has the right to determine all matters concerning production.

Central Planning

One of the characteristic features of our day is that people use many names for the same thing. One synonym for socialism and communism is "planning." If people speak of "planning" they mean, of course, *central* planning, which means *one plan made by the government*—one plan that prevents planning by anyone except the government.

A British lady, who also is a member of the Upper House, wrote a book entitled *Plan or No Plan,* a book which was quite popular around the world. What does the title of her book mean? When she says "plan," she means only the type of plan envisioned by Lenin and Stalin and their successors, the type which governs all the activities of all the people of a nation. Thus, this lady means a central plan which excludes all the personal plans that individuals may have. Her title *Plan or No Plan* is therefore an illusion, a deception; the alternative is not a central plan or no plan, it is *the total plan* of a central governmental authority *or freedom* for individuals to make their own plans, to do their own planning. The individual plans his life, every day, changing his daily plans whenever he will.

The free man plans daily for his needs; he says, for example: "Yesterday I planned to work all my life in Cordoba." Now he learns about better conditions in Buenos Aires and changes his plans, saying: "Instead of working in Cordoba, I want to go to Buenos Aires." And that is what freedom means. It may be that he is mistaken, it may be that his going to Buenos Aires will turn out to have been a mistake. Conditions may have been better for him in Cordoba, but he himself made his plans.

Under government planning, he is like a soldier in an army. The soldier in the army does not have the right to choose his garrison, to choose the place where he will serve. He has to obey orders. And the socialist system—as Karl Marx, Lenin, and all socialist leaders knew and admitted—is the transfer of army rule to the whole production system. Marx spoke of "industrial armies,"

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and Lenin called for "the organization of everything—the postoffice, the factory, and other industries, according to the model of the army."

Therefore, in the socialist system everything depends on the wisdom, the talents, and the gifts of those people who form the supreme authority. That which the supreme dictator—or his committee—does *not* know, is not taken into account. But the knowledge which mankind has accumulated in its long history is not acquired by everyone; we have accumulated such an enormous amount of scientific and technological knowledge over the centuries that it is humanly impossible for one individual to know all these things, even though he be a most gifted man.

And people are different, they are unequal. They always will be. There are some people who are more gifted in one subject and less in another one. And there are people who have the gift to find new paths, to change the trend of knowledge. In capitalist societies, technological progress and economic progress are gained through such people. If a man has an idea, he will try to find a few people who are clever enough to realize the value of his idea. Some capitalists, who dare to look into the future, who realize the possible consequences of such an idea, will start to put it to work. Other people, at first, may say: "They are fools"; but they will stop saying so when they discover that this enterprise, which they called foolish, is flourishing, and that people are happy to buy its products.

"Planners" Resist New Ideas

Under the Marxian system, on the other hand, the supreme government body must first be convinced of the value of such an idea before it can be pursued and developed. This can be a very difficult thing to do, for only the group of people at the head—or the supreme dictator himself—has the power to make decisions. And if these people—because of laziness or old age, or because they are not very bright and learned—are unable to grasp the importance of the new idea, then the new project will not be undertaken.

We can think of examples from military history. Napoleon was certainly a genius in military affairs; he had one serious problem, however, and his inability to solve that problem culminated, finally, in his defeat and exile to the loneliness of St. Helena. Napoleon's problem was: "How to conquer England?" In order to do that, he needed a navy to cross the English Channel, and there were people who told him they had a way to accomplish that crossing, people who—in an age of sailing ships—had come up with the new idea of steamships. But Napoleon did not understand their proposal.

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Then there was Germany's famous *Generalstab.* Before the First World War, the German general staff was universally considered to be unsurpassed in military wisdom. A similar reputation was held by the staff of General Foch in France. But neither the Germans nor the French—who, under the leadership of General Foch, later defeated the Germans—realized the importance of aviation for military purposes. The German general staff said: "Aviation is merely for pleasure, flying is good for idle people. From a military point of view, only the Zeppelins are important," and the French general staff was of the same opinion.

Later, during the period between World War I and World War II, there was a general in the United States who was convinced that aviation would be very important in the next war. But all other experts in the United States were against him. He could not convince them. If you have to convince a group of people who are not directly dependent on the solution of a problem, you will never succeed. This is true also of noneconomic problems.

Artists Under Socialism

There have been painters, poets, writers, composers, who complained that the public did not acknowledge their work and caused them to remain poor. The public may certainly have had poor judgment, but when these artists said: "The government ought to support great artists, painters, and writers," they were very much in the wrong. Whom should the government entrust with the task of deciding whether a newcomer is really a great painter or not? It would have to rely on the judgment of the critics, and the professors of the history of art who are always looking back into the past yet who very rarely have shown the talent to discover new genius. This is the great difference between a system of "planning" and a system in which everyone can plan and act for himself.

It is true, of course, that great painters and great writers have often had to endure great hardships. They might have succeeded in their art, but not always in getting money. Van Gogh was certainly a great painter. He had to suffer unbearable hardship and, finally, when he was thirty-seven years old, he committed suicide. In all his life he sold only *one painting,* and the buyer of it was his cousin. Apart from this one sale, he lived from the money of his brother, who was not an artist nor a painter. But van Gogh's brother understood a painter's needs. Today you cannot buy a van Gogh for less than a hundred or two hundred thousand dollars.

Under a socialist system, van Gogh's fate might have been differ-

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ent. Some government official would have asked some well-known painters (whom van Gogh certainly would not have regarded as artists at all) whether this young man, half or completely crazy, was really a painter worthy to be supported. And they without a doubt, would have answered: "No, he is not a painter; he is not an artist; he is just a man who wastes paint;" and they would have sent him into a milk factory or into a home for the insane. Therefore all this enthusiasm in favor of socialism by the rising generation of painters, poets, musicians, journalists, actors, is based on an *illusion*. I mention this because these groups are among the most fanatical supporters of the socialist idea.

Economic Calculation

When it comes to choosing between socialism and capitalism as an economic system, the problem is somewhat different. The authors of socialism never suspected that modern industry, and all the operations of modern business, are based on calculation. Engineers are by no means the only ones who make plans on the basis of calculations, businessmen also must do so. And businessmen's calculations are all based on the fact that, in the market economy, the money prices of goods inform not only the consumer, they also provide vital information to businessmen about the factors of production, the main function of the market being not merely to determine the cost of the *last* part of the process of production and transfer of goods to the hands of the consumer, but the cost of those steps leading up to it. The whole market system is bound up with the fact that there is a mentally calculated division of labor between the various businessmen who vie with each other in bidding for the factors of production —the raw material, the machines, the instruments—and for the human factor of production, the wages paid to labor. This sort of calculation by the businessman cannot be accomplished in the absence of prices supplied by the market.

At the very instant you abolish the market—which is what the socialists would like to do—you render useless all the computations and calculations of the engineers and technologists; the technologists can give you a great number of projects which, from the point of view of the natural sciences, are equally feasible, but it takes the market-based *calculations* of the businessman to make clear which of those projects is the most advantageous, from the *economic* point of view.

The Importance of Prices

The problem with which I am dealing here is the fundamental issue of capitalistic economic calculation as opposed to socialism. The

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fact is that economic calculation, and therefore all technological planning, is possible only if there are money prices, not only for consumer goods but also for the factors of production. This means there has to be a market for all raw materials, for all half-finished goods, for all tools and machines, and for all kinds of human labor and human services.

When this fact was discovered, the socialists did not know how to respond. For 150 years they had said: "All the evils in the world come from the fact that there are markets and market prices. We want to abolish the market and with it, of course, the market economy, and substitute for it a system without prices and without markets." They wanted to abolish what Marx called the "commodity character" of commodities and of labor.

When faced with this new problem, the authors of socialism, having no answer, finally said: "We will not abolish the market altogether; we will pretend that a market exists; we will play market, like children who play school." But everyone knows that when children *play* school, they do not learn anything. It is just an exercise, a game, and you can "play" at many things.

This is a very difficult and complicated problem and in order to deal with it in full one needs a little more time than I have here. I have explained it in detail in my writings. In six lectures I cannot enter into an analysis of all its aspects, therefore, I want to advise you, if you are interested in the fundamental problem of the impossibility of calculation and planning under socialism, read my book *Human Action,* which is available in an excellent Spanish translation.

But read other books, too, like the book of the Norwegian economist Trygve Hoff, who wrote on economic calculation. And if you do not want to be one-sided, I recommend that you read the highly-regarded socialist book on this subject by the eminent Polish economist Oscar Lange, who at one time was a professor at an American university, then became a Polish ambassador, and later returned to Poland.

The Soviet "Experiment"

You will probably ask me: "What about Russia? How do the Russians handle this question?" This changes the problem. The Russians operate their socialistic system within a world in which there are prices for all the factors of production, for all raw materials, for everything. They can therefore employ, for their planning, the *foreign* prices of the world market. And because there are certain differences between conditions in Russia and those in United States, the result is very often that the Russians consider

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The Pricing Process

The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. . . .

It is the very essence of prices that they are the offshoot of the actions of individuals and groups of individuals acting on their own behalf . . .

Prices are by definition determined by peoples' buying and selling or abstention from buying and selling. They must not be confused with fiats issued by governments or other agencies enforcing their orders by an apparatus of coercion and compulsion. . . .

In declaring that it is not the business of government to determine prices, we do not step beyond the borders of logical thinking. A government can no more determine prices than a goose can lay hen's eggs.

LUDWIG VON MISES, *Human Action*

something to be justified and advisable—from their economic point of view—the Americans would not consider economically justifiable at all.

The "Soviet experiment," as it was called, does not prove anything. It does not tell us anything about the fundamental problem of socialism, the problem of calculation. But are we entitled to speak of it as an experiment? I do not believe there is such a thing as a scientific experiment in the field of human action and economics. You cannot make laboratory experiments in the field of human action because a scientific experiment requires that you do the same thing under various conditions, or that you maintain the same conditions, changing perhaps only one factor. For instance, if you inject into a cancerous animal some experimental medication, the result may be that the cancer will disappear. You can test this with various animals of the same kind which suffer from the same malignancy. If you treat some of them with the new method and do not treat the rest, then you can compare the result. You cannot do this within the field of human action. There are no laboratory experiments in human action.

The so-called Soviet "experiment" merely shows that the standard of living is incomparably lower in

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Soviet Russia than it is in the country that is considered, by the whole world, as the paragon of capitalism: the United States.

Of course, if you tell this to a socialist, he will say: "Things are wonderful in Russia." And you tell him: "They may be wonderful, but the average standard of living is much lower." Then he will answer: "Yes, but remember how terrible it was for the Russians under the tsars and how terrible a war we had to fight."

I do not want to enter into discussion of whether this is or is not a correct explanation, but if you deny that the conditions are the same, you deny that it was an experiment. You must then say this (which would be much more correct): "Socialism in Russia has not brought about an improvement in the conditions of the average man which can be compared with the improvement of conditions, during the same period, in the United States."

The Buyer as Boss vs. Control by a "Planner"

In the United States you hear of something new, of some improvement, almost every week. These are improvements that business has generated, because thousands and thousands of business people are trying day and night to find some new product which satisfies the consumer better or is less expensive to produce, or better *and* less expensive than the existing products. They do not do this out of altruism, they do it because they want to make money. And the effect is that you have an improvement in the standard of living in the United States which is almost miraculous, when compared with the conditions that existed fifty or a hundred years ago. But in Soviet Russia, where you do not have such a system, you do not have a comparable improvement. So those people who tell us that we ought to adopt the Soviet system are badly mistaken.

There is something else that should be mentioned. The American consumer, the individual, is both a buyer and a boss. When you leave a store in America, you may find a sign saying: "Thank you for your patronage. Please come again." But when you go into a shop in a totalitarian country—be it in present-day Russia, or in Germany as it was under the regime of Hitler—the shopkeeper tells you: "You have to be thankful to the great leader for giving you this."

In socialist countries, it is not the seller who has to be grateful, it is the buyer. The citizen is *not* the boss; the boss is the Central Committee, the Central Office. Those socialist committees and leaders and dictators are supreme, and the people simply have to obey them.

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William H. Peterson

Order and Disorder

In one part of Spain, some 20,000 demonstrators protest the construction of a generating station to be equipped with an American-supplied nuclear reactor, and police cordon off access highways to prevent the gathering of an estimated 10,000 more. In another part of Spain, Basque separatists block the main highway to France, burn buses and cars, and initiate a general strike involving tens of thousands in the Basque region. And across Spain, social and economic indicators spell other troubles: the crime rate rises, drug addiction spreads, unemployment approaches the 9% mark, and inflation rots the Spanish peseta at the rate of 16% a year.

Dr. Peterson is the Scott L. Probasco, Jr., Professor of Free Enterprise, director of the Center for Economic Education at the University of Tennessee at Chattanooga, and a member of the Mont Pelerin Society.

Spain, one discovers, is part and parcel of "the Western sickness"—the disorder of the Western democracies.

But in Madrid, at a week-long meeting last September of the Mont Pelerin Society—an international group of market economists—the talk is not only of disorder but of order: the essential social harmony and economic growth implicit in a society of unhampered markets, of neoliberal values, of freedom and free enterprise. For example:

- University of Chicago economist George Stigler reaffirms the competitive order, with its system of built-in rewards and penalties, as a means of enhancing the ethics of society.
- British economist Arthur Shenfield gives the case for withdrawing legal exemptions from unions and resubjecting them and their mem-

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bers to the law of contract and tort as a means of correcting labor power abuses.

• Guatemalan businessman and university trustee Manuel Ayau cautions his fellow businessmen everywhere to do their homework on the finer points of free enterprise economics and avoid seeking government favors like a plague—or else risk the image of appearing as naive and two-faced in the court of public opinion.

• Erasmus University economist Roland Vaubel of Rotterdam employs the Buchanan-Tullock "theory of public choice" and finds politicians, bureaucrats and voters, in utilizing the coercive powers of the state, a lot less public-interested and a lot more self-interested than is commonly presumed.

• West German economist Gerhard Prosi analyzes and rejects the push for codetermination—government insistence on union representation on corporate boards—citing West German experience in which union representatives opted for short-run worker advantages at the expense of long-run company objectives.

• University of Illinois economist Donald Kemmerer puts in a plug for "honest money" and the gold standard as a means of restoring order in the current international monetary turmoil.

The turmoil, monetary and otherwise, is pervasive as well as gloomy. Swedish economist Eric Brodin, for instance, finds Sweden's famed "middle-way" welfare state counterproductive, to put it mildly. Sweden's taxes are about the highest in the world. This factor has contributed mightily to its "brain drain" and bodes ill for its export-oriented economy to compete in world markets. To make matters worse, income tax progressivity—the tax biting deeper and deeper as incomes inflate—depresses employee productivity by dulling the incentive to work harder or longer and by inducing absenteeism. Swedish absenteeism increased 63% from 1960 to 1978, Brodin notes.

In addition, he points out, the tax burden has pushed as much as 10% of the Swedish economy into the "underground" of barter and unreported sales and incomes, so as to evade the tax collector. Thus, say, a Swedish dentist and carpenter swap some bridgework for some kitchen cabinets. Things like that prompt Eric Brodin to suggest that the Swedish tax system increasingly puts a tax on honesty; and he quotes renowned Swedish economist Gunnar Myrdal who is blunter still on accelerating tax-cheating: "We are becoming a nation of hustlers."

In like manner, University of Rome economist Antonio Martino details the spread and repercussions of statism in inflation-rife Italy. One

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indicator he employs is the ratio of public sector spending to national income. He reports that this percentage has climbed in Italy from 37% in 1960, to 44% in 1970, and is expected to be between 55% and 60% in 1979, a trend greatly facilitated by the Italian government's penchant for financing its deficits over the years by money creation—in effect, the printing press.

Professor Martino notes how Luigi Einaudi, Italy's first president and an early member of the Mont Pelerin Society, had anticipated the problem of deficit finance. During the drafting of Italy's postwar constitution, Dr. Einaudi sought and won a provision which states: "Every law which involves new or greater expenditures must indicate the means to meet them." But, as may be expected, this provision has been progressively ignored by Italian politicians, especially since the early 1960's when they "opened the door to the Left."

Helping to break Italian budgets, says Dr. Martino, has been the policy of purchasing "problem firms" so as to save threatened jobs. But "problem firms" seem to become even more problem-prone under state ownership, for losses, apparently, are of little consequence. For example, Alfa Romeo, the prestigious state car manufacturer, produces about 200,000 cars a year, and annually loses on the order of 200 billion lire. In other words, the manufacturer—or rather the Italian taxpayer—loses roughly one million lire, or $1,235, per car.

The irony of these and similar national examples of disorder put forth by other Mont Pelerin speakers is told by Nobel Laureate in Economics F. A. Hayek. To restore "order" the authorities ignore the fact that it was their interventions that largely caused the problems in the first place, and so they intervene further. For example, they fight inflation with price controls. But the more they intervene, frequently egged on by interest groups, the greater becomes the disorder.

So Hayek points to the "spontaneous order" inherent in free markets, the order springing from the nature of knowledge. He stresses the dynamics and wide dispersion of economic knowledge, especially that related to supply and demand. It is the inevitable lack of this knowledge, along with the vain attempt to repeal the law of supply and demand, says Hayek, that frustrates central planners, welfare administrators and industry regulators—as well as their respective nations.

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George Koether

Hans F. Sennholz

AGE OF INFLATION

LUDWIG VON MISES said it almost seventy years ago: "State regulation . . . in the sphere of banking, as everywhere else . . . has been a failure."

Now one of Mises' most eminent and articulate disciples, Professor Hans Sennholz of Grove City College, has restated that principle much more forcefully: *"money is inflated, depreciated and ultimately destroyed whenever government holds monopolistic power over it."* That is the main lesson to be learned from Sennholz's latest book, *Age of Inflation.*

This book deals with fundamentals: what is money, how was it created, what determines its value, how does it operate in an economy, what happens when money is "managed" by government, what alternatives are there for present monetary mismanagement? With an engaging mixture of logic and history—thoroughly grounded on the rock of Austrian monetary theory and his own personal experience with inflation in Germany—Sennholz serves up a feast of good reading upon the economic problem that has become the curse of the world. Each chapter can be enjoyed separately on its own. This is a book one can pick up, lay down and come back to many times—all with profit.

In the tangled labyrinth of economic myth no truth seems harder to find than the truth about money. Happily, Sennholz knows his way well as he thoroughly exposes the major monetary myths: that money was created by the State, that a growing economy requires a growing money "supply," that unemployment can be cured by sufficient doses of inflation and that

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George Koether is a businessman, economist, author, journalist, lecturer, consultant, and long-time advocate of free market principles and practices.

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business cycles are an inevitable characteristic of a free market. Especially timely are his treatment of the Chicago School "monetarists" and his strictures on the Federal Reserve System.

Monetary Policy

He challenges the Chicago School's Nobel-prize winner, Milton Friedman, with a frontal attack on Friedman's monetary theory. Sennholz generously credits Friedman and the "monetarists" for the "analytical depth, scientific precision and overwhelming empirical evidence" with which they "re-emphasized the importance of monetary policy." He applauds their "levelling devastating criticisms at official monetary managers for having generated feverish booms and disastrous recessions."

But Sennholz scorns Friedman's recommendation for a slow but steady, planned and controlled increase in currency and bank deposits of three to five per cent per year. This lessened rate of inflation, Sennholz points out, still has deleterious effects upon the economy leading to recurring depressions. His summary *coup de grace* for Chicago School monetary theory is brief and to the point: "It is built on the quicksand of macroeconomic analysis, it misinterprets the business cycles and therefore is bound to fail as a policy guide for economic stability; and it is inherently inflationary because it makes government the guardian of our money. . . . After all, it puts government in charge of economic stability and then prescribes monetary policies that will continue to generate business cycles."

Age of Inflation by Hans F. Sennholz. Published by Western Islands, Belmont, Massachusetts 02178, 1979. 214 pages, $8.95 cloth. The book also is available from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

In a short discussion of Keynes, Samuelson, Hansen, Lerner and other "fine-tuners" of the economy who seem to think they can "manage" the destinies of 200 million Americans with push buttons from Washington, Sennholz points out the inherent conflict between their "macroeconomic" point of view—with its Phillips Curves, its computer models, its equations and projections—and the "microeconomic" principles of Austrian economics that begin with the action of individuals—action no person can predict or measure.

Sennholz's castigation of the Federal Reserve System is unreserved and devastating. He calls it "the most important tool in the armory of economic interventionism." Oper-

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ated "with all the planners' usual assumption of benevolent omniscience. . . . It provides the government with the money the planners think they should have, beyond the amount they dare take directly in taxes" and "it does all this by wrecking the purchasing power of the dollar . . . through a process exactly on a par with the coin-clipping of ancient kings—but much more diabolical because so much less visible."

Citing Emergency Banking Regulation No. 1 which, he says, empowers the instant seizure of most bank deposits "in the event of an attack on the United States" and "prohibits the transfer of credit sought for any unauthorized purpose," Sennholz describes the government's monopoly over money via the Treasury and the Federal Reserve as a "ready instrument of tyranny." He recommends that the Federal Reserve System be inactivated or abolished.

His other recommendations to bring the United States out of the Age of Inflation are:

1. the Federal Budget must be balanced now, next year and every year thereafter
2. Federal Reserve money now in circulation must stay in circulation and be made fully redeemable in gold
3. legal tender laws should be repealed
4. private coinage should be allowed
5. business taxes must be lowered considerably, and
6. the numerous legal immunities and privileges of labor unions must be abolished.

The labor union privileges, of course, must be removed in order to restore freedom and flexibility to the labor market. "It is true," says Sennholz, "that labor unions do not directly increase the quantity of money and credit and thus cause the depreciation." But their policy of using their power and privileges to force wage rates above what a free market would make economically possible continually creates unemployment. So labor leaders "become advocates of all schemes for easy money and credit that promise to alleviate unemployment."

In other words, labor's *political* power has given it *money* power and now its money power enlarges and enhances its political power. (Labor is not only pushing for inflation, it is now pushing for nationalization of the nation's petroleum industry.)

"Gold is Money," as Sennholz wrote in the book of that title, so, naturally, his restoration of a sound money requires the use of gold. In this he agrees with his mentor Mises. But he differs from Mises in the methodology of his reform. Mises had prescribed a currency reform requiring a government agency established specifically for this task.

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"This proposal," says Sennholz, "assumed a state of economic and political enlightenment that surpasses by far the present state of economic and political thought." Thus, reasons Sennholz, we may have to find our way back to monetary soundness via *monetary freedom* which will give the new gold standard "birth and meaning through inexorable economic law." So sound money should be restored without the "aid" of government—aid which, as he has shown, has always been disastrous, not beneficent. "That is why we seek no reform, no restoration law, no conversion or parity, no government cooperation, *merely freedom.*"

In that freedom Sennholz envisions the development of "parallel" monies: Government's paper money, and *gold* money, operating through free gold markets, free private coinage, enforceable gold contracts and a market-established (*not* government-established) exchange ratio between gold money and the government's legal tender paper. People would be free to use whichever money they preferred. Hopefully, some day, an enlightened (or chastened?) government might see the wisdom of making *its* money fully convertible into gold.

This proposal opens a Pandora's box for supporters or critics who will present a myriad of arguments on "why it will" or "will not" work. A private "parallel" money implies an unregulated, private-enterprise banking system. That idea will be anathema to those who cannot be weaned from the fallacy that money is a creature of the State and must be controlled by the State.

A Market Money

Yet the existence of today's "underground" or "other" economy which has developed as a sort of shunpike around the heavily-taxed toll road of our over-regulated enterprise, suggests the very real possibility for an "other" money as well as an "other" economy. After all, even the man on the street is beginning to see that the only *real* money is that *chosen by the market*—i. e., gold or silver. And if the government, in order to finance deficit after deficit, keeps on printing more and more paper and calling it "legal tender" money, that paper will some day become as worthless as did the Continental currency and the German mark.

This raises the intriguing image of Gresham's Law being turned upside down: *good* money driving out *bad* money instead of the reverse. Gresham's Law—"bad money drives out good money"—only applies when government controls the price of *both* parallel monies, i. e., their ratio of exchange. Under freedom of choice in the market place, competition among traders will displace bad money with *good* money—just as

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competition displaces poor products and services with better products and services.

Professor Sennholz does not say what might happen if the government forced its paper on the public in payment for public debts while requiring, at the same time, that taxes must be paid in gold (or gold-redeemable certificates). That stratagem, resorted to by the Byzantine Emperor Alexius Comenus (AD 1081-1118) led to the decline and fall of the Byzantine Empire.

In any case, no solution of our monetary crisis is possible without a total reformation of our political, social and economic understanding. Says Sennholz: "Depending on the resistance offered by popular ignorance and prejudice, by government greed and lust for power, it may take us many years" to restore a sound money system in our country. He emphasizes that government's propensity to inflate the currency can only end if pressure group voters stop asking government for favors at the expense of all other taxpayers. And he ends his book with a fervent call for renunciation of government subsidies, tariffs, favors and other gifts by all of us, and a return to self-reliance and a renewed dedication to the "giant educational task" before us.

The Sennholz Creed of Public Morality

No matter how the transfer state may victimize me, I shall seek no transfer payments, nor accept any.

I shall seek no government grants, loans, or other redistributive favors, nor accept any.

I shall seek no government orders on behalf of redistribution, nor accept any.

I shall seek no employment in the government apparatus of redistribution, nor accept any.

I shall seek no favors from the regulatory agencies of government, nor accept any.

I shall seek no protection from tariff barriers or any other institutional restrictions on trade and commerce.

I shall seek no services from, nor lend support to, institutions that are creatures of redistribution.

I shall seek no support from, nor give support to, associations that advocate or practice coercion and restraint.

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The Future of Business Regulation

MURRAY L. WEIDENBAUM, who is Director of the Center for the Study of American Business at Washington University in St. Louis, doesn't go so far as to say that government intervention in business is unnecessary. His message, in a horrifying little book, *The Future of Business Regulation* (Amacom, a Division of American Management Associations, 135 W. 50th St., New York, N.Y. 10020, 183 pp., $12.95), is simply that we can get too much of a good thing.

This is a subtle study of the law of diminishing returns—indeed, the law of negative returns—as it applies to those well-meaning people in Washington and fifty state capitals who seek to save us from ourselves. Nobody in his right mind wants to die in an industrial accident, nobody wants to get cancer from the circumambient air or strangle on carbon monoxide, and nobody since the legendary King Mithridates has relished poison in his food. But when the costs of regulation deprive every family of four of $2,000 a year, which is the Weidenbaum claim, most people would be happy to save the money and to trust their own common sense to minimize the risks they must encounter in their daily living.

Despite his prodigious feats of cost-benefit analysis and quantification, Mr. Weidenbaum doesn't set any minimal standards for regulation. He deals in trajectories. In fiscal 1974 the budget to run the various federal regulatory bureaus was $2.2 billion. In fiscal 1979 this had jumped 115 per cent to $4.8 billion. There was, of course, the general inflation, but, as Mr. Weidenbaum observes in his deadpan manner, "there are few parts of the private sector that have recorded such gains in the same five-year period." Regulation, he adds, has "become a major growth area of the American economy."

The 115 per cent jump in federal

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regulatory costs in five years was largely due to the passage of twenty-five new Congressional acts and amendments to older acts. One wonders just who has had his well-being improved to any considerable extent by any of this Congressional solicitude. Do we have any more energy because of the Energy Policy and Conservation Act? Weren't toxic substances under firm control before 1974? Couldn't the separate states be trusted to handle surface mining control or fair market practices in transactions between oil companies and their dealers? Why did the minimum wage have to be raised in the very five-year period that had seen such an increase in black teen-age unemployment? And why should Washington be concerned about levying fines for "business payments abroad," meaning money spent on meeting the customs of countries whose sense of morality differs from our own?

A Lower Standard of Living

In short, what do we get out of it all? We get a lowered standard of living, for one thing. Innovation in pharmaceuticals passes to other countries. Research and development money flows into defensive channels. Says the head of the General Motors Research Laboratory, "we've diverted a large share of our resources—sometimes up to half—into meeting government regulations instead of developing better materials, better manufacturing techniques, and better products. . . . It's a terrible way to waste your research dollars."

The Dow Chemical Company, in 1976, figured that its expenses in complying with federal regulations came to $186 million, a twenty-seven per cent jump from the 1975 total. A little more than half of the compliance money could be justified as necessary for the safety and protection of workers, customers and the general public. But the rest was either duplicative or simply "beyond good scientific manufacturing, business, or personnel practices," which is a nice way of describing stupidity.

Beyond the costs of compliance Dow has a story to tell about the costs to the community in expansion that is forgone. Dow had plans for a $300 million petrochemical complex in California to meet West Coast demands for the company's goods and services. After spending $4 million "for an environmentally sound project," the company decided it couldn't afford to waste any more money threading through "the regulatory red tape maze."

It's the same sort of story in copper. According to an Arthur D. Little company study, new pollution control regulations will add from twenty-three to thirty-nine per cent to copper prices, and cut smelter production around twenty-five to

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thirty-three per cent. Copper imports will jump by eight per cent. The air will be cleaner, of course, but it will be cleaner mostly in areas that are quite capable of absorbing pollution without damage to individuals.

Environmental Problems

In a lot of instances of our concern for environmental perfection, regulation merely serves to shift the nature of pollution. In compliance with the law, the Pennsylvania Power Company added scrubbers to its new 825-megawatt complex. The scrubbers take the pollutants out of the coal, all right, but the by-product is 18,000 tons of sludge a day. To contain the sludge, the company has had to build a 350-foot-high dam, "the largest earth and rock embankment east of the Mississippi River." And the lake behind the dam, a lake of gook, already covers 900 acres of once picturesque countryside.

When the Labor Department proposed some new noise standards in steel mills, the steel company accountants sharpened their pencils. They figured that the cost of establishing controls that would satisfy OSHA inspectors would come to $1.2 million for each affected steelworker. For a mere $42 per employee, the companies could provide ear protectors ($10), noise monitoring ($12) and audiometric testing ($20). Some of the money saved could go for higher wages, some of it could go into needed capital formation to make more steel jobs for more people wearing ear protectors.

Alternatives

Mr. Weidenbaum would like to see Congress require economic impact statements before new regulatory bureaus are created and new laws passed. He would like to see the federal government imitate the state of Colorado in adopting so-called sunset laws that would force periodic reviews of the functions and the budgetary demands of agencies. Pollution taxes might be adopted, and fees might be charged for discharging effluents. This would force industries to do their own pollution monitoring. It would not only contribute to a healthier environment, it would also lighten the bureaucratic payroll in Washington.

What is needed most of all is a return to a little common sense. Mr. Weidenbaum paints an amusing picture of a man going to the bathroom in the morning and mildly losing his temper trying to open a bottle of aspirin which has the child-proof cap required by the Consumer Product Safety Commission. Personally I doubt that this would happen more than once—the alternative, which is to throw the child-proof cap into the wastebasket, is all too easy. It takes less effort to stow the aspirin bottle

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on a top shelf out of a child's reach than it does to put the cap back on.

What we need is a Congress that will stop treating people like idiots. But if idiots continue to elect Congressmen, what can we do? ⊛

AMERICAN ETHNIC GROUPS
edited by Thomas Sowell
(The Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037)
249 pages ■ $7.50

Reviewed by Allan C. Brownfeld

WHY have some racial, religious and ethnic groups advanced rapidly in the American society while others have progressed economically and educationally more slowly? Are some groups inherently superior, or is there something in the background of each which may account for both successes and failures?

This study is the product of research conducted at The Urban Institute from 1972 to 1975 under the direction of Thomas Sowell. Dr. Sowell is a widely respected black economist and the author of a number of important books, including *Race and Economics,* a landmark study of the impact of race upon economic advancement in the American society. He is an advocate of free enterprise and believes that through the working of the market blacks will progress as have the various immigrant groups which preceded them to urban America.

Of the dozen or so groups that were examined, six were selected for special emphasis: those with black, Chinese, Japanese, Irish, Italian or Jewish background. These groups, writes Dr. Sowell, "are all minorities, they share many aspects of the immigrant experience, although only blacks suffered the burden of slavery; and all have faced exceptional barriers and experienced frustration in achieving economic and social mobility. One of the chief structural concepts implicit in this study is that the evolution of minority immigrant groups proceeds in parallel continua, in the course of which each group experiences similar developments, although not necessarily at the same time, with the same intensity, or in exactly the same way."

In an essay concerning black Americans, Sowell discusses three separate and distinct categories: (1) Those "free persons of color" who were emancipated before the end of the Civil War and in 1830 constituted 14 per cent of the American Negro population; (2) The largest component of the American Negro population, those blacks emancipated after the Civil War and their descendants; and (3) Black immigrants, primarily from other parts of the Western Hemisphere, and espe-

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cially from the British West Indies.

Many traditional myths are shattered in this study. Dr. Sowell declares, for example, that, "Despite a large literature which has repeated, without evidence, the theory that slavery was responsible for broken or matriarchal homes among American Negroes, it was precisely among freed slaves that the highest incidence of two-parent families was found in mid-nineteenth century Philadelphia and it is only in a much later era that the incidence of broken homes in urban ghettoes reached unusually large proportions." Figures show that a similarly high rate of broken homes may be found among other, nonenslaved groups, such as the Irish in an earlier era, and Puerto Ricans and Mexican-Americans today.

The West Indians are of particular interest because their rate of progress in the U.S. has been far ahead of that of native-born blacks, indicating that race has not been the key factor. Dr. Sowell writes that slavery in the West Indies differed significantly from that in the U.S. because, "instead of a minority of blacks surrounded by a larger white society, the West Indies has long been a place with an overwhelmingly black population. . . . The West Indian plantation could not draw upon a larger white society for its economic needs, and in fact members of the enslaved black population grew their own food individually, and sold the surplus in the market off the plantation. Unlike slaves in the U.S. . . . slaves in the West Indies were assigned individual plots of land in which each family grew its own food. In short, even during the era of slavery, black West Indians had generations of experience in individual reward for individual effort . . . also, the virtual absence of a white working class meant that 'free persons of color,' and later the whole free black population, could not be restricted to the most menial occupations, as in the U.S., or the more skilled and more responsible positions would have gone unfilled. . . . The whole West Indian experience followed a pattern reminiscent of European immigrants rather than the pattern of their native black contemporaries."

In an essay concerning Chinese and Japanese immigrants in the U.S., William Petersen points out that the gross discrimination and collective frustration to which these groups were subjected "ordinarily result in a pattern of poor education, low income, high crime rate and unstable family life. . . . However, these two minorities themselves broke through the barriers of prejudice and, by such key indices as education and income, surpassed the average levels of native born whites. This anomalous record, like the earlier one of Jews, challenges the

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premises from which the etiologies of poverty, crime, illegitimacy and other social ills are typically deduced. That discrimination is evil in itself is beyond question . . . the question is whether even the most debilitating discrimination need incapacitate a people if it is not reinforced by other pressures."

Dr. Petersen writes that, "Like Negroes, Orientals got few loans from regular banks; but unlike Negroes, they used traditional institutions to amass the capital needed to establish small businesses. One system has worked more or less like a building-and-loan association: subscribers paid in regularly, received interest for their deposits, and were eligible for interest-bearing loans when they needed them. . . ."

During World War II, the Japanese were placed in internment camps and lost most of their property—losses estimated at more than $400 million in 1940 dollars. "One might have anticipated that the camp inmates would succumb to bitterness and apathy. Instead most lived out the Japanese proverb, 'Six times down, seven times up!' . . . For both Chinese and Japanese, the self-discipline of individuals was supplemented by various types of their own organizations designed to further their joint efforts."

Discussing the European immigrant groups, and the reasons for swift Jewish advance and much slower advances by other European groups, particularly the Roman Catholic Irish and Italians, Alice Kessler-Harris and Virginia Yans-McLaughlin note that, "When choices had to be made, such groups as Italians, Irish and Poles would sacrifice the educational interests of their young, withdrawing them from school, sending them to work, absorbing their earnings. Such decisions increased present earnings at the expense of future skills. Jews do not seem to have made similar compromises. . . . Jewish mobility is legendary. . . . Seventy-five per cent of the sons of Jewish immigrants had moved up to middle class status by 1950, an almost exact reversal of the proportions among Italians. . . . Religious tradition and community approval encouraged the Jew in America to invest in education and correspondingly to increase his upward mobility. No other group had this advantage. . . . By 1953 . . . while one in every 20 Americans had completed college, one in every six Jews had done so."

The authors point out that every group which has been successful has "come from a cohesive community, one characterized by concerned participation in religious institutions, charitable enterprises and self-help groups." They also point out that political power and economic advance have little relationship to one another. "Irish political acumen, as

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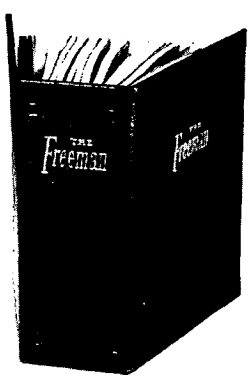
evidenced in the big city political machines of New York, Chicago, and Boston, was not translated into mobility for the ethnic group. . . . The Boston Irish who had political control of that city from the 1880s on, were twice as likely as any other group, native or foreign, to be low-level manual workers in the 1890s."

This study challenges the idea that discrimination causes poverty, crime and other social problems. The dramatic advance of black West Indians, Japanese, Chinese, Jews and others indicates that far more is involved in achieving economic success. Those who seek to correct social problems by interfering in the workings of the free market—the same market which enabled all of these other groups to succeed as a result of their own efforts—are misreading the problems we face. A free society rewards hard work, self-discipline, respect for education, and self-help. How to imbue those who do not share these values with such an approach to life is our real problem. It cannot be done by one or another of the "Wars on Poverty" we have entered into.



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